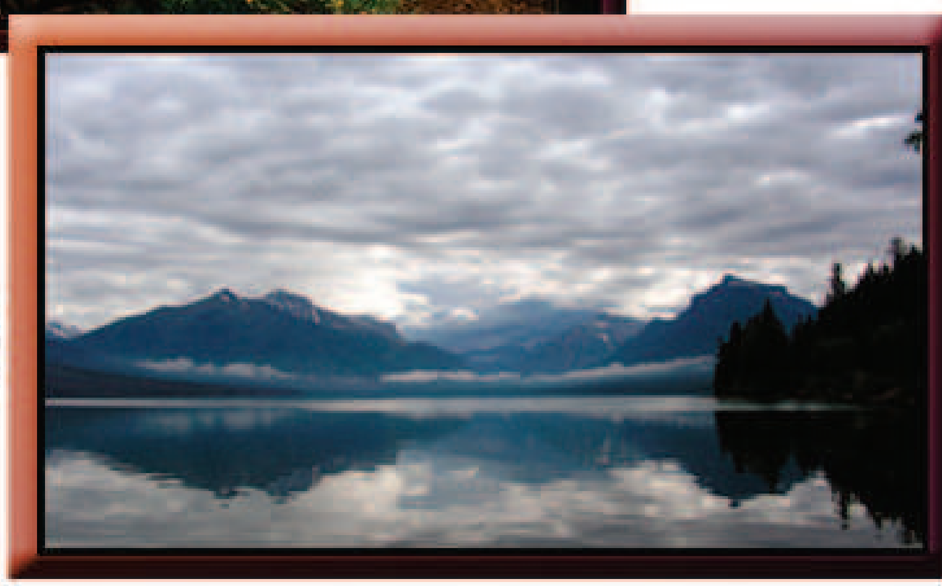
# MONTANA



## Comprehensive Annual Financial Report

## For Fiscal Year Ended June 30, 2010

## REPORT LAYOUT

The Comprehensive Annual Financial Report is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section contains the transmittal letter, state organization chart, and a list of principal state officials. The Financial Section includes the independent auditor's report, the management's discussion and analysis, the basic financial statements, and the combining statements and schedules. The Statistical Section includes fiscal, economic, and demographic information about the State.

## INTERNET ACCESS

The Comprehensive Annual Report is available at the Department of Administration, State Accounting Division's web site at:

http://accounting.mt.gov/cafr/default.mcpx

**COVER Photographs:**

Clement Mountain Photo, Glacier National Park, courtesy of Montana Office of Tourism
Lake McDonald, Glacier National Park, courtesy of Lynn Pfankuch

# State of Montana

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2010

Prepared By:

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**State of Montana**
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**
For the Fiscal Year Ended June 30, 2010

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# INTRODUCTORY SECTION

**DEPARTMENT OF ADMINISTRATION**
**STATE ACCOUNTING DIVISION**

BRIAN SCHWEITZER, GOVERNOR

MITCHELL BUILDING
HELENA, MT 59620-0102

STATE OF MONTANA

Accounting Bureau
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SABHRS Finance and Budget Bureau
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PO Box 200102
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Treasury Unit
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PO Box 200140
Helena, MT 59620-0140
(406) 444-2624

Local Government
Services Bureau
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PO Box 200547
Helena, MT 59620-0547
(406) 841-2909

January 6, 2011

To the Citizens, Governor, and Members of the Legislature of the State of Montana:

In accordance with Title 17, Chapter 2, Part 110, Montana Code Annotated (MCA), we are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the State of Montana for the fiscal year ended June 30, 2010. Responsibility for the accuracy of the data presented and the completeness and fairness of the presentation rests with the Department of Administration. To the best of our knowledge and belief, the enclosed data are accurate in all material respects, and are reported in a manner designed to present fairly the financial position and results of operations of the various funds of the State of Montana. All disclosures necessary to enable the reader to gain an understanding of the State's financial activities are included.

## DESCRIPTION OF THE CAFR

This report and the accompanying financial statements and statistical tables were prepared in accordance with standards set forth by the Governmental Accounting Standards Board (GASB).

This CAFR is divided into three main sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, an organization chart for the State, and a table of contents. The financial section contains management's discussion and analysis, the independent auditor's report, government-wide financial statements, fund financial statements, notes to the financial statements, combining statements by fund type, and other schedules. The statistical section includes financial, economic, and demographic data.

This report includes all funds of those entities that comprise the State of Montana (the primary government) and its component units. The component units are entities that are legally separate from the State, but for which the State is financially accountable, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body; and (1) the State is able to impose its will on that organization; or (2) there is the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State. The following component units are included in the State's financial reporting entity: Housing Authority, Facility Finance Authority, State Compensation Insurance Fund (Old and New), Montana State University, University of Montana, Public Employees Retirement Board, and Teachers Retirement System. These component units are discretely presented in the State's financial statements.

## PROFILE OF THE GOVERNMENT

Montana became the 41st state when it was admitted to the Union in 1889, 25 years after the attainment of territorial status. While Montana has an area of 145,552 square miles, and is the nation's fourth largest state, it is also one of the most sparsely populated, with an estimated population of 974,989. Montana is vast, including rolling plains, the Northern Rocky Mountains, all of Glacier National Park, four of the five entrances to Yellowstone National Park, wheat farms, cattle ranches, tribal lands, and extensive natural resources.

In 1972, a constitutional convention convened, rewriting the State's constitution and establishing the current governmental structure. As shown in the organizational chart on page 12, state government is divided into three separate branches: legislative, executive, and judicial. Montana's Legislature consists of 50 senators and 100 representatives elected from single-member districts. The Legislature meets in regular biennial sessions for 90 days in odd-numbered years. Montana is governed by its constitution, and its laws are administered by its executive branch officers and various

boards and commissions. State government services provided to citizens include building and maintaining roads; providing public safety, health, and environmental protection services to protect the general welfare of the State's citizens; helping adults, children, and families through difficult times such as abuse, divorce, illness, death, and unemployment; fostering an attractive business climate to encourage economic growth; and protecting public lands and natural resources for conservation and recreational activities. The State also provides significant financial support to its higher education institutions, local governments, and school districts to help those entities meet the specific needs of their constituents.

## ECONOMIC CONDITION AND OUTLOOK

Montana's primary economic base remains concentrated in agriculture, mining, wood products and other manufacturing, and nonresident travel. Montana's economy entered a recession at the end of 2008 that continued through 2009 and the first half of calendar year 2010. The recession in Montana has most impacted the areas of nonresident travel, and manufacturing (including forest products and construction). As a result of the recession, Montana's economy shrank by an estimated 1.9% in 2009 and, as a modest recovery is expected to begin, is projected to grow by an estimated 1.3% in 2010. The agricultural sector of the economy recovered slightly in 2010. The mining and government sectors of the economy have not been significantly impacted by the recession. Growth in the government workforce and related federal stimulus expenditures helped stabilize the State's economy. Overall, Montana's non-agricultural employment declined an estimated 2.8% in 2009. The decline slowed to an estimated 0.3% decrease in the first half of 2010. The overall unemployment rate increased from 5.4% to 6.7% in calendar year 2009. The rise in unemployment continued through June 2010 resulting in a rate of 7.3%. Montana's personal and corporate income tax revenues continued their decline in fiscal year 2010. The revenue from these sources appeared to be recovering in the first quarter of fiscal year 2011. For a more in-depth analysis of the impact of the recession on the State's financial position, the reader should refer to management's discussion and analysis and the financial statements contained in the CAFR.

Montana's wheat yields increased in 2010, with production projected to reach 215.4 million bushels, compared to the 2009 production level of 176.6 million bushels. Winter wheat yields increased to 93.6 million bushels, 5% higher than the 2009 level of 89.5 million bushels. Spring wheat yields reached 103.7 million bushels, up 47% from 2009. Durum production is estimated at 18.0 million bushels, up 9 percent from 2009. The overall increase in spring wheat production resulted from increased acreage planted and harvested in combination with overall record yields. Acres of winter wheat planted decreased 20%, but record yields of 48 bushels per acre resulted in an overall production increase. Durum producers seeded less acreage and obtained 15 bushels more per acre than in 2009 leading to an overall increase in production. Wheat prices were slightly lower in 2010, falling in the $4.17 to $5.83 per bushel range, reflecting the impact of the global economic downturn.

Montana's other major agricultural commodities include oats, barley, and cattle. Oat production in Montana decreased to an estimated 1.6 million bushels in 2010, representing an 8% decrease from 2009 levels. Barley production is estimated at 38.4 million bushels, which is 6% lower than last year. Montana's cattle herd decreased in 2010 to an estimated 2.55 million head. Montana ranks eleventh in the U.S. cattle and calf industry. Montana's 2008 receipts from cattle sales exceeded $1.3 billion.

The recession did not significantly impact Montana's manufacturing industry until 2009. In 2009 employment in this industry, not including the self-employed, dropped from 20,200 to 19,100, or by 5.5%. This decline in employment has continued into the first half of 2010 with June's employment level ending at 17,400 for an additional 8.9% decrease. Including self-employed workers, the 2009 decline was from 23,800 to 21,400 employees. The value of production within the manufacturing sector dropped an estimated $1 billion to approximately $7 billion. Overall workers earnings dropped an estimated $110 million to an estimated $1 billion.

As a result of the continued decline in the housing market, prices for lumber and other wood products were again lower in 2009. The price decreases, coupled with the unavailability of raw materials, has led to a continuing decline in production. With timber production volume around 305 million board feet for the year, the timber harvest was the lowest since 1945. Estimated total sales value of the State's primary wood and paper products in 2009 was $550 million, down about $160 million from 2008. The total wood products industry estimated employment of 7,070 workers for 2009 was lower than the estimated 2008 level of 8,840. The 2009 lumber production level was 415 million board feet, down from 710 million board feet in 2008. Most major and smaller mills either closed or curtailed operations during 2009.

Nonresident travel to Montana in 2009 decreased an estimated 1% to approximately 10.0 million visitors. Overall visitor numbers for the national parks were either higher or unchanged. The visitor numbers for Yellowstone Park increased an

estimated 3.3% from 3 million visitors to just under 3.3 million visitors. Visits to Glacier Park remained unchanged at just over 2 million visitors. Nonresident travelers contribute to the tax base by paying the lodging tax; excise taxes, such as those on gasoline; and indirectly, by supporting employment in industries that pay corporate taxes and whose workers pay income, property, and other taxes. Estimated non-resident direct travel expenditures in Montana totaled $2.3 billion in 2009, representing a decrease of $0.4 billion. The estimated economic benefit of nonresident travel in Montana has dropped from $4.2 billion for calendar year 2008 to $3.5 billion for 2009, representing a $687 million decrease (16.55%). This decrease was significantly less than the initial -2% estimated for calendar year 2009.

As of the end of calendar year 2008 an estimated 321 million barrels of proven oil reserves existed under Montana's land. As of the date of this letter these numbers have not been updated for 2009. These do not reflect the projected additional reserves existing in the Bakken and Tyler formations, Montana shares with North and South Dakota, that can be developed using new drilling technologies. In 2010, due to a decrease in crude oil and natural gas prices, the State saw a reduction in production and exploration activity, with estimated crude oil production for the state at 27.7 million barrels. This represents a 12.1% decrease from the 2008 production levels of 31.5 million barrels. The decline continued in fiscal year 2010 with a 21.3% reduction in production through June, when compared to 2009 information for the same period.

Historically, mining has been a significant part of Montana's economy. While there is no published data on proven reserves for metals mining, Montana has produced copper, molybdenum, lead, zinc, palladium, gold, silver, nickel, chromate, and other metals. The State currently has active metals mines producing primarily palladium, platinum, copper, molybdenum, gold, silver, lead, and zinc. In 2008 these active mines employed approximately 2,500 employees. Regulatory and siting issues, a shortage of experienced workers, the unavailability of mining supplies and venture capital, and the high cost of the fuel and power required to extract these metals, have impacted the potential future development in metals mining within the State. Montana has non-metals mines producing garnets, talc and limestone/cement. In 2008 these mines employed approximately 350 employees. The recession has minimally impacted this sector of the economy.

Montana's total coal reserves were estimated at 119,017 million short tons with recoverable reserves of 74,770 million short tons in 2009. This represents 24% of the total, and 29% of the recoverable, reserves in the U.S. Of these reserves 855 million short tons of coal, 8% of the US total, are located at producing mine sites. During 2009, Montana's coal production decreased to 40,266 thousand short tons (-15.7%). Although overall coal production was down in 2009, production though the first half of calendar year 2010 has increased by 930,000 short tons (4.7%). In a related issue, construction on the first new major power transmission line in Montana since the 1970s began during the fall of 2009 and continued into 2010. While this power transmission line is primarily intended for transmission of wind generated electricity, it will also be available to carry electricity generated from other sources, including coal.

The recession in Montana primarily impacted the secondary and tertiary sectors of the economy. As in most other states this recession has most impacted the construction industry. Employment in this industry declined from 29,700 to 22,900, or 22.9%, in calendar year 2009. This decline slowed significantly but continued into the first half of 2010 with the industry employment for June 2010 reported at 22,400 workers. This represents an additional drop of 0.5%. The recession also significantly impacted the trade, transportation and utilities and the leisure and hospitality sectors (including the non-resident travel related employment above) resulting in declines from 91,600 to 88,300, or 3.3% and 61,200 to 57,600, or 3.6%, respectively during 2009. The 2009 decrease in employment in these sectors was partially offset by an increase in the governmental and education and health services sectors from 85,900 to 89,000, or 3.1% and 60,100 to 62,200, or 2.1%, respectively.

## MAJOR INITIATIVES

At the close of fiscal year 2010, the General Fund unreserved, undesignated fund balance decreased. This decrease was not to level expected by the 61st legislature and left Montana in much better financial condition than many other states in the US. The limited impact of the recession on the General Fund resulted primarily from lower than budgeted expenditures. The federal government's continuation of the increased Medicaid match combined with reduced educational expenditures, resulting from the Otter Creek Coal Lease Royalty payment received by the State, and the Governor's 5% expenditure reduction, resulted in the lower than budgeted General Fund expenditures. The corporate and personal income tax revenue decreases encountered in fiscal year 2010 have not continued into the first half of fiscal year 2011.

Both the decreased revenue and related expenditure activity are discussed in more detail in the management discussion and analysis included in this report.

## FINANCIAL INFORMATION

Montana's Statewide Budgeting, Accounting, and Human Resource System (SABHRS) is a centrally maintained, fully computerized, double-entry accounting system. SABHRS records are computer-edited.

Management of the State is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the State are protected from loss or misuse, and that adequate accounting data are compiled to allow for the preparation of financial statements in accordance with generally accepted accounting principles. In developing and evaluating the State's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance that the above objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and that the evaluation of costs and benefits requires estimates and judgments by management.

Budgetary restrictions are imposed via appropriations approved by the Legislature or established administratively as provided for by state law. Appropriations are required by state law for the general, state and federal special revenue, and capital projects funds. The level of budgetary control is generally established by fund. SABHRS is designed to provide budgetary control by preventing spending in excess of legislative and administrative authority and/or available cash. SABHRS also provides for encumbrance accounting as a technique for accomplishing budgetary control.

### General Fund Balance

The unreserved, undesignated fund balance of the General Fund was reported at $392.5 million at June 30, 2009. This compares to a combined unassigned and assigned (spendable) fund balance of $322.4 million at June 30, 2010. The $322.4 million fund balance consists of $83.3 million assigned and $239.1 million unassigned. The change in terminology results from the early implementation of GASB Statement 54 for fiscal year 2010. This represents a decrease of $70.1 million (17.9%). This decrease was anticipated in the budget adopted by the previous legislature.

### Cash Management

The uniform investment program established by the 1972 Montana Constitution directs that the Board of Investments has sole authority to invest state funds. The board operates under the "prudent person principle", which requires the board to (1) discharge its duties in the same manner as that of a prudent person acting in a like capacity with the same resources and aims; (2) diversify the holdings of each fund to minimize the risk of loss and maximize the rate of return; and (3) discharge duties solely in the interest of, and for the benefit of, the funds managed. Permissible investments include bonds, notes, debentures, equipment obligations, common stock (pension trust and Montana State fund only), commercial paper, bankers acceptances, interest bearing deposits in Montana financial institutions, real estate, and any other investment in a Montana business that continues existing jobs or creates new jobs. These investments are subject to statutory restrictions for quality and size of holdings.

Unless otherwise provided by law, treasury cash is pooled for investment, regardless of the fund from which it is deposited, and the pooled investment earnings are credited to the General Fund. The board reported total investment income from investments under its management of $422 million, an increase of 22% from the $345 million earned last year. The book value of board-managed investments increased by approximately $306 million, or 2.6%, to $12.2 billion at fiscal year-end 2010. The board publishes an annual audited report of all its investment activity. That report may be referenced for more in-depth investment information.

### Other Post Employment Benefits - Implied Rate Subsidy Liability

The State of Montana reported the "implied rate subsidy" liability, required under the Governmental Accounting Standards Board (GASB) Statement No. 45, in this financial report and the related financial statements. Although the State reported this liability, and related expenses and expenditures, the State does not agree that this represents a legal liability and further believes that the presentation of this activity in the financial statements will eventually be misleading to the users of the statements. In this, the third year of implementation, the unfunded, net OPEB obligation, is $122.5 million for the state system, and $56.2 million for the Montana University System plans.

The State plans to continue funding the employee health insurance plan on a "pay as you go" basis, and does not intend to fund this liability. Because the State is not funding this liability, it will increase in 1/30$^{th}$ increments, plus interest, and within a few years, the financial statements will reflect the impact of a very large "implied rate subsidy" liability that does not have legal substance. The total actuarially accrued liability, which, absent a change in position by GASB, will be recorded on the State accounting system over the next 27 years, is estimated at $357.7 and $183.2 million for the State

and MUS systems, respectively. Accrued interest will further inflate this over time. We submitted a request to have GASB reconsider the requirement to report the implied rate subsidy. GASB refused to revisit this issue. A copy of the letter to GASB providing the our concerns with the implied rate subsidy reporting, required under GASB Statement No. 45, is available upon request.

## INDEPENDENT AUDIT

The financial statements contained in Montana's Comprehensive Annual Financial Report were audited in accordance with generally accepted auditing standards by the State's Legislative Audit Division. The Legislative Auditor is appointed by, and reports to, the Legislative Audit Committee. The Deputy Legislative Auditor issued an unqualified opinion on the State's financial statements for fiscal year 2010.

## CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Montana for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2009. This was the twenty second year that the State received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current CAFR continues to conform to the Certificate of Achievement Program requirements; we are submitting it to GFOA to determine its eligibility for another certificate.

## ACKNOWLEDGEMENTS

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated service of the entire staff of the Accounting Bureau and the cooperation of accounting personnel at the individual state agencies. I would like to express my appreciation to the Accounting Bureau and other agency personnel who participated in the preparation of this document. I would also like to thank the Legislature and all state agencies for their interest and support in planning and conducting the financial operations of Montana in a professional, responsible, and progressive manner.

Respectfully submitted,

/s/ Paul A Christofferson

Paul A. Christofferson, CPA, Administrator
State Accounting Division
Department of Administration

/s/ Julie Feldman

Julie Feldman, Bureau Chief
State Accounting Bureau
Department of Administration

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## State of Montana

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

# STATE OF MONTANA ORGANIZATION CHART


## LEGISLATIVE

- Senate
- House of Representatives
- Legislative Audit Division
- Legislative Fiscal Division
- Legislative Services Division
- Montana Consumer Counsel

## EXECUTIVE

- Governor
- Lieutenant Governor

- Attorney General
- Public Service Commissioners
- Secretary of State
- State Auditor
- Superintendent of Public Instruction

## JUDICIAL

- Supreme Court
- District Courts
- Water Courts
- Workers Compensation Court
- Justice of the Peace Courts
- City or Municipal Courts
- State Law Library
- Supreme Court Administrator
- Clerk of Supreme Court

## STATE AGENCIES

- Administration
- Agriculture
- Arts Council
- Board of Public Education
- Commerce
- Commissioner of Political Practices
- Commissioner of Higher Education
- Corrections
- Environmental Quality
- Fish, Wildlife and Parks
- Historical Society
- Labor and Industry
- Livestock
- Military Affairs
- Natural Resources & Conservation
- Public Employee Retirement
- Public Health & Human Services
- Revenue
- School for the Deaf and Blind
- State Fund
- State Library
- State Public Defender
- Teachers Retirement System
- Transportation
- University System

# State of Montana
# SELECTED STATE OFFICIALS

## EXECUTIVE

Brian Schweitzer

Governor

John Bohlinger

Lieutenant Governor

## JUDICIAL

Mike McGrath

Chief Justice

## LEGISLATIVE

Robert Story

President of the Senate

Bob Bergren

Speaker of the House

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# FINANCIAL SECTION

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
Angie Grove

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2010, which collectively comprise the state's basic financial statements, as follows:

Statement of Net Assets
Statement of Activities
Balance Sheet - Governmental Funds
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Statement of Net Assets - Proprietary Funds
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds
Statement of Cash Flows - Proprietary Funds
Statement of Fiduciary Net Assets - Fiduciary Funds
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds
Combining Statement of Net Assets - Component Units
Combining Statement of Activities - Component Units

These financial statements are the responsibility of the state of Montana's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montana State University component units and University of Montana component units, which represent 8.9, 23.3, and 4.8 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the university component units, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material

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http://leg.mt.gov/audit

misstatement. The financial statements of the university component units were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2C to the basic financial statements, the state of Montana changed its presentation of expenses by function for governmental activities on the Statement of Activities and current expenditures by function on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds in fiscal year 2009-10.

Management's Discussion and Analysis, the Budgetary Comparison Schedule, the Pension Plan Information, and the Other Postemployment Benefits Plan Information listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the state of Montana's basic financial statements. The Combining Statements listed in the table of contents are for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

At July 1, 2010, the Public Employees' Retirement System – Defined Benefit Retirement Plan, Game Wardens' and Peace Officers', Sheriffs', and Teachers' retirement systems were not actuarially sound. The Unfunded Actuarial Accrued Liability amortization period is infinite for the Public Employees' Retirement System – Defined Benefit Retirement Plan, Game Wardens' and Peace Officers', and Sheriffs' retirement systems. The amortization period for the Teachers' retirement system is 49.5 years. The maximum allowable amortization period is 30 years.

In accordance with *Government Auditing Standards,* we have issued our report dated December 22, 2010, on our consideration of the state of Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal

control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. It is included in the Legislative Auditor's separately issued report (10-01) on the State's basic financial statements.

The Introductory Section and Statistical Section listed in the table of contents were not audited by us, and accordingly, we express no opinion on them.

Respectfully submitted,

*/s/ Cindy Jorgenson*

Cindy Jorgenson, CPA
Deputy Legislative Auditor

December 22, 2010

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

## INTRODUCTION

Management of the State of Montana provides this *Management's Discussion and Analysis* of the State of Montana's basic financial statements included in the Comprehensive Annual Financial Report (CAFR). This narrative overview and analysis of the financial activities of the State of Montana is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the additional information that is furnished in the State's financial statements, which follow.

## FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

**Government-wide Highlights**

The assets of the State exceeded its liabilities at the end of fiscal year 2010 by $6.9 billion (reported as net assets) compared with $6.7 billion at the end of fiscal year 2009. Of this amount, $1,083.7 million (reported as unrestricted net assets) may be used to meet the government's general obligations to citizens and creditors. Component units reported net assets of $1,311.3 million compared with $1,139.8 million at fiscal year end 2009. These are discussed in more detail in the financial statement overview below.

**Fund Highlights**

As of the close of fiscal year 2010, the State's governmental funds reported combined ending fund balances of $3.7 billion compared with $3.5 billion at fiscal year 2009. Of this amount, $1.2 billion is not in spendable form, primarily permanent fund principle, and $2.5 billion is available for spending. The $2.5 billion that is spendable consists of: $0.9 billion restricted to expenditure for specific purposes such as transportation, $1.3 billion committed to expenditure for specific purposes such as natural resources, $0.1billion assigned for specific purposes such as encumbrances and $0.2 billion unassigned, primarily in the general fund. The fund balance classifications are discussed in more detail in footnote 1 of the financial statements. At the end of the fiscal year, spendable fund balance for the General Fund was $322.4 million, with $83.3 million assigned and $239.1 million unassigned, compared with unreserved fund balance of $392.5 million at fiscal year end 2009, which is a decrease of $70.2 million (17.9%). These changes are discussed in more detail in the financial analysis of the State's major funds presented below.

The State's business-type activity funds reported net assets at the close of fiscal year 2010 in the amount of $194.7 million compared with the fiscal year-end 2009 net assets of $275.3 million. Of the business-type activity fund equity $14.5 million was invested in capital assets, net of related debt. $180.2 million of net assets was in spendable form with $20.8 million unrestricted and $159.4 million restricted to expenditure for a specific purpose. This represents an $81.9 million (54.4%) decrease in spendable net assets from the fiscal year-end 2009 business-type activity fund combined restricted and unrestricted net asset balance of $262.5 million. These changes are discussed in more detail in the financial analysis of the State's major funds presented below.

**Long-term Debt**

The State's total bonds and notes payable for governmental activities decreased by $27.4 million, from $388.3 million in fiscal year 2009 to $360.9 million (7.05%) in fiscal year 2010.

Business-type activities reported bonds and notes payable of $.4 million at fiscal year-end 2010. This represents a decrease of $0.8 million (68.6%) over the fiscal year-end 2009 reported amount of $1.2 million. For details relating to the states long term debt see footnote 11.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State of Montana's basic financial statements. The State's basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The report also contains additional required supplementary information (budgetary schedules and other post employment benefits plan information). These components are described below:

**Basic Financial Statements**
The basic financial statements include two kinds of financial statements that present different views of the State – the *government-wide financial statements* and the *fund financial statements and combining major component unit financial statements***.** These financial statements also include the *notes to the financial statements* that explain some of the information in the financial statements and provide more detail.

**Government-wide Financial Statements**
The *government-wide financial statements* provide a broad view of the State's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the State's financial position, which assists in assessing the State's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year, even if cash involved has not been received or paid. The government-wide financial statements include two statements.

The *Statement of Net Assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the State's net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

Both of the above financial statements have separate sections for three different types of state programs or activities. These three types of activities are as follow:

*Governmental Activities* – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal grants). Most services normally associated with state government fall into this category, including education (support for both K-12 public schools and higher education), general government, health services, legal and judiciary services, museums, natural resources, public safety and defense, regulatory services, social services, and transportation.

*Business-type Activities* – These functions are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The major business-type activities of the State include the Unemployment Insurance Fund and the Economic Development Bond Program that assist Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

*Discretely Presented Component Units* – These are operations for which the State has financial accountability, but they have certain independent qualities as well. For the most part, these entities operate similarly to private sector businesses and the business-type activities described above. The State has four authorities and two universities that are reported as discretely presented component units of the State.

**Fund Financial Statements (Reporting the State's Major Funds)**
A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus on individual parts of the state government, reporting the State's operations in more detail than the government-wide statements. All of the funds of the State can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds are as follows:

*Governmental Funds Financial Statements* – Most of the basic services provided by the State are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources.

They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

The State has five governmental funds that are considered major funds for presentation purposes. That is, each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The State's five major governmental funds are the General Fund, the State Special Revenue Fund, the Federal Special Revenue Fund, the Coal Severance Tax Fund, and the Land Grant Fund.

*Proprietary Funds Financial Statements* – When the State charges customers for the service it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize accrual accounting, the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. An example is the State Lottery. An internal service fund reports activities that provide supplies and services for the State's other programs and activities such as the Motor Pool.

*Fiduciary Funds* – These funds are used to account for resources held for the benefit of parties outside state government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the State's own programs. Fiduciary funds use the accrual basis of accounting. A retirement fund is an example of a fiduciary fund.

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the component unit financial statements.

**Required Supplementary Information**

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule, which includes the reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund, as presented in the governmental fund financial statements, and other post employment benefits plan information.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Montana's overall financial position showed a slight decline from the last fiscal year. This decline was caused by the impacts of the current world-wide recession.

**Net Assets**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's combined net assets (government and business-type activities) totaled $7.1 billion at the end of fiscal year 2010. Net assets of the governmental activities increased $495.7 million (7.7%), and business-type activities had an $82.8 million (30%) decrease.

A portion of the State's net assets reflects its investment in capital assets such as land, buildings, equipment and infrastructure (roads, bridges, and other immovable assets) less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the State's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets.

At the end of the current fiscal year, the State was able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

**Net Assets**
**As of Fiscal Year Ended June 30**
*(expressed in thousands)*

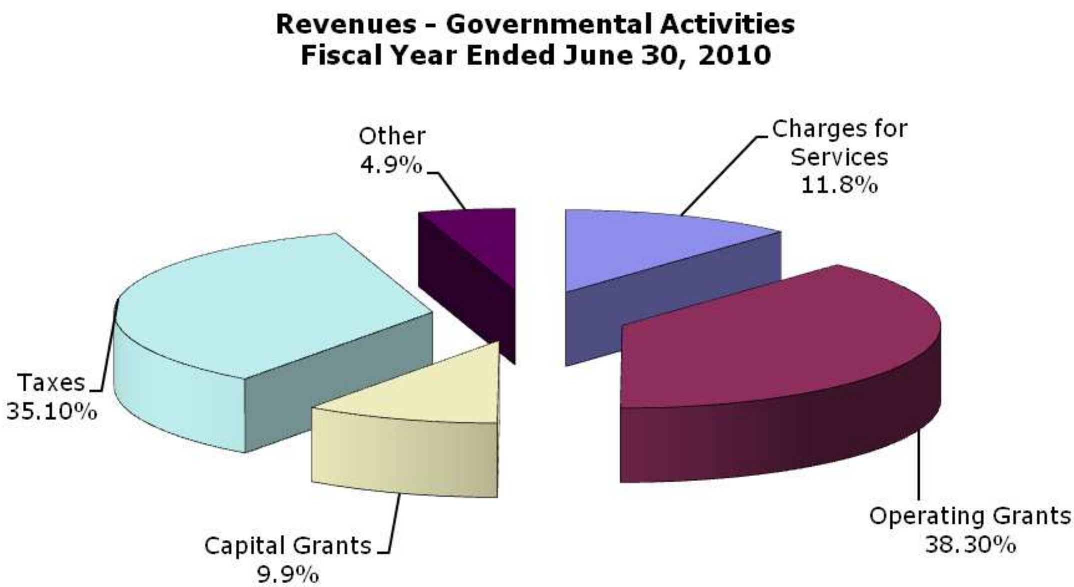
| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | **2009** | **2010** | **2009** | **2010** | **2009** | **2010** |
| Current and other assets | $4,727,321 | $4,678,781 | $399,183 | $326,068 | $5,126,504 | $5,004,849 |
| Capital assets | 3,787,835 | 4,149,204 | 12,539 | 14,534 | 3,800,374 | 4,163,738 |
| Total assets | 8,515,156 | 8,827,985 | 411,722 | 340,602 | 8,926,878 | 9,168,587 |
| Long-term liabilities | 873,087 | 879,029 | 10,555 | 10,577 | 883,642 | 889,606 |
| Other liabilities | 1,196,110 | 1,007,219 | 126,139 | 135,305 | 1,322,249 | 1,142,524 |
| Total liabilities | 2,069,197 | 1,886,248 | 136,694 | 145,882 | 2,205,891 | 2,032,130 |
| Invested in capital assets, net of related debt | 3,526,294 | 3,874,920 | 12,539 | 14,534 | 3,538,833 | 3,889,454 |
| Restricted | 2,329,850 | 1,983,143 | 255,493 | 159,335 | 2,585,343 | 2,142,478 |
| Unrestricted | 589,815 | 1,083,674 | 6,996 | 20,851 | 596,811 | 1,104,525 |
| Total net assets | $6,445,959 | $6,941,737 | $275,028 | $194,720 | $6,720,987 | $7,136,457 |

The following condensed financial information was derived from the government-wide Statement of Activities, and reflects how the State's net assets changed during the fiscal year:

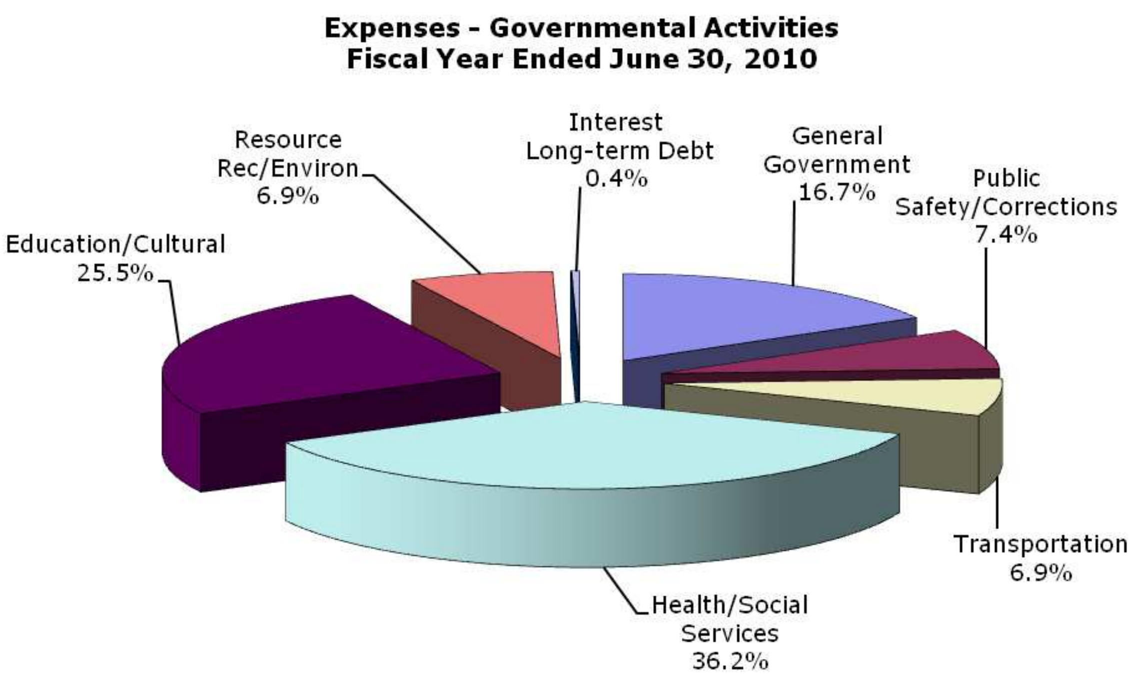
**Changes in Net Assets**
**For Fiscal Year Ended June 30**
*(expressed in thousands)*

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 |
| **Revenues:** | | | | | | |
| Program revenues | | | | | | |
| Charges for services | $ 483,032 | $ 612,041 | $278,877 | $309,975 | $ 761,909 | $ 922,016 |
| Operating grants | 1,635,769 | 1,985,977 | 118,058 | 226,049 | 1,753,827 | 2,212,026 |
| Capital grants | 467,611 | 510,996 | 1,360 | 3,174 | 468,971 | 514,170 |
| General revenues | | | | | | |
| Taxes | 2,017,232 | 1,817,564 | 24,823 | 25,017 | 2,042,055 | 1,842,581 |
| Other | 320,856 | 258,627 | 2,629 | 4,622 | 323,485 | 263,249 |
| Total revenues | 4,924,500 | 5,185,205 | 425,747 | 568,837 | 5,350,247 | 5,754,042 |
| **Expenses:** | | | | | | |
| General government | 549,847 | 774,881 | | | 549,847 | 774,881 |
| Public safety/corrections | 408,239 | 342,803 | | | 408,239 | 342,803 |
| Transportation | 438,649 | 320,085 | | | 438,649 | 320,085 |
| Health/social services | 1,529,104 | 1,677,261 | | | 1,529,104 | 1,677,261 |
| Educational/cultural | 1,137,772 | 1,179,788 | | | 1,137,772 | 1,179,788 |
| Resource/rec/environ | 363,179 | 318,300 | | | 363,179 | 318,300 |
| Econ dev/assistance | 170,027 | - | | | 170,027 | - |
| Interest on long-term debt | 18,721 | 17,692 | | | 18,721 | 17,692 |
| Unemployment Insurance | | | 235,949 | 354,794 | 235,949 | 354,794 |
| Liquor Stores | | | 61,446 | 61,569 | 61,446 | 61,569 |
| State Lottery | | | 33,787 | 36,365 | 33,787 | 36,365 |
| Economic Dev Bonds | | | 3,523 | 2,167 | 3,523 | 2,167 |
| Hail Insurance | | | 4,087 | 6,238 | 4,087 | 6,238 |
| Gen Govt Services | | | 60,157 | 62,796 | 60,157 | 62,796 |
| Prison Funds | | | 10,681 | 6,463 | 10,681 | 6,463 |
| MUS Group Insurance | | | 55,023 | 72,606 | 55,023 | 72,606 |
| MUS Workers Comp | | | 3,675 | 3,900 | 3,675 | 3,900 |
| Total expenses | 4,615,538 | 4,630,810 | 468,328 | 606,898 | 5,083,866 | 5,237,708 |
| Increase (decrease) in net assets before transfers | 308,962 | 554,395 | (42,581) | (38,061) | 266,381 | 516,334 |
| Transfers | 42,863 | 42,486 | (42,863) | (42,486) | - | - |
| Change in net assets | 351,825 | 596,881 | (85,444) | (80,547) | 266,381 | 516,334 |
| Net assets, beg of year (restated) | 6,094,134 | 6,344,856 | 360,472 | 275,267 | 6,454,606 | 6,620,123 |
| Net assets, end of year | $6,445,959 | $6,941,737 | $275,028 | $194,720 | $6,720,987 | $7,136,457 |

**Governmental Activities**
The following chart depicts revenues of the governmental activities for the fiscal year:

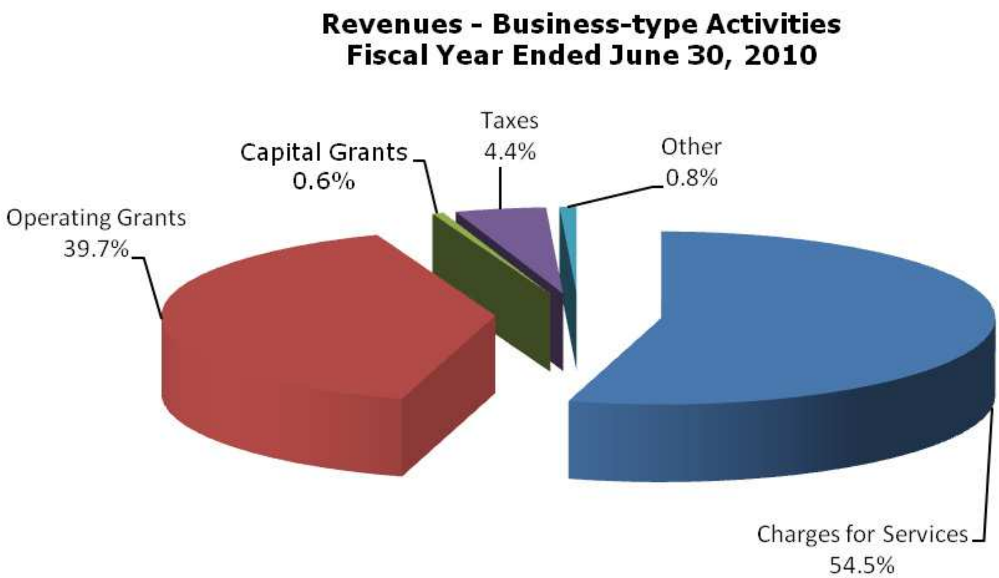



The following chart depicts expenses of the governmental activities for the fiscal year:

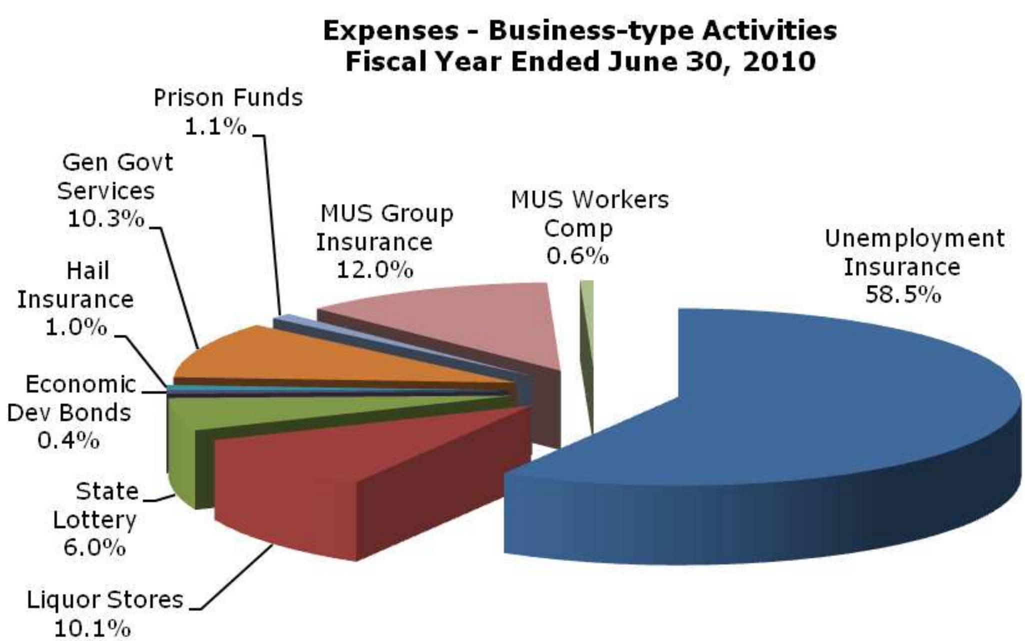


**Business-type Activities**

The following chart depicts revenues of the business-type activities for the fiscal year:




The following chart depicts expenses of the business-type activities for the fiscal year:



## FINANCIAL ANALYSIS OF THE STATE'S MAJOR FUNDS

As the State completed the year, its governmental funds reported fund balances of $3.7 billion. Of this total amount, $2.5 billion (68.0%) constitutes spendable fund balance and $1.2 billion (32.0%) is classified as non-spendable. The spendable fund balance is further classified as restricted, $919 million (36.5%), committed, $1,266 million (50.4%), assigned, $119.3 million (4.7%), and unassigned, $212.2 million (8.4%). The preceding percentages are calculated on total fund balances. These new fund balance classifications resulted from the early implementation of GASB Statement 54 and are defined in more detail in footnote 1. The analysis of these funds provides the explanation for the overall change in net assets at the government-wide level also since these represent the major operating funds of the state as a whole.

### General Fund

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, combined unassigned and assigned (spendable) fund balance of the General Fund was $322.4 million. This represents 12.8% of the 2.5 billion spendable governmental fund balances for all governmental funds. The ending combined General Fund unassigned and assigned fund balance was $9.6 million higher than the anticipated $312.7 million unreserved fund balance estimated by the 61st Legislature. Unassigned fund balance decreased, from the previously reported unreserved fund balance of $392.5 million, during the fiscal year by $70.2 million, primarily because of less income and natural resource tax revenues. General Fund expenditures for fiscal year 2010 decreased by $122.9 million (7.2%). This decrease in expenditures partially offset the impact of decreased revenue collections. Additionally the state received an unanticipated bonus of $81.5 million for the Otter Creek Coal lease that translated into decreased general fund education transfers, partially offsetting the decreased 2010 revenues. The Governor ordered a 5% General fund expenditure reduction that also offset the impact of the lower revenues and contributing to the higher than anticipated ending fund balance. The changes in both expenditures and revenues are discussed in detail below.

Lower Revenues Than Anticipated – Total General Fund revenues and transfers in were $1,630.4 million for fiscal year 2010. This was $185.9 million (10.2%) less than fiscal year 2009, and $92.5 million (5.4%) less than what was projected for fiscal year 2010 by the legislature. The decrease in revenue from fiscal year 2009 to fiscal year 2010 was primarily in individual and corporate income, and oil/natural gas production, taxes. Individual and corporate income tax revenue decreased $96.9 million (12.2%) and $75.6 million (45.5%) respectively. During calendar year 2009 employment decreased by an estimated 12,200 jobs or 12.2%. This employment decline, combined with the continued national economic slowdown, contributed to the income and corporate tax decreases. Lower oil and gas prices led to decreased production within the State resulting in natural resource taxes falling by $14.4 million (10.2%) in fiscal year 2010. Although natural resource taxes were under the previous year's collections they were above the budgeted amounts as discussed below

Individual income tax fell under the legislative revenue estimate by $140.2 million (16.7%). Corporate income taxes were under the estimate by $24.9 million (21.5%). The decrease in both individual and corporate income taxes was anticipated during the estimation process, but not to the magnitude encountered during fiscal year. The legislature projected natural resource tax collections of $81.0 million. The actual collections of $126.3 million exceeded the projection by $45.3 million, 55.9%, and partially offset the decrease in income and corporate taxes.

General Fund Expenditure Budgets – General Fund expenditures were lower than appropriated by nearly $141.9 million. Much of the unspent authority resulted from the Governor's 5% expenditure reduction. Other significant reversions include the following:

- General Government – $4.3 million in Department of Commerce Montana American Recovery and Reinvestment Act (ARRA) funding was carried forward to fiscal year 2011.
- Public Safety and Corrections - The Department of Corrections did not spend carry-forwards of $6.5 million had lower costs of $.75 million realized from housing more inmates in community corrections centers rather than secure custody.
- Transportation – Transportation reverted $2.5 million primarily in authority that was intended for consultants, experts and specialized legal counsel to analyze rail rates and service issues and to pursue related legal issues. The will be carried forward to fiscal year 2011.
- Health and Social Services – Unspent Medicaid Benefits and Administration of $4.4 million reverted with $2.6 million relating to caseloads. The $2.6 million will roll forward into FY 2011. The continuation of the enhanced federal Medicaid matching percentage (FMAP) resulted in $4.2 million less in 2010 general fund expenditures.

- Education/Cultural – K-12 Base Aid reverted $82 million primarily as the result of the Otter Creek royalties paid into the state special revenue account and offset general fund expenditures.

Lower General Fund Expenditures – General Fund expenditures decreased by $122.9 million (7.2%). The major factors behind this decrease are summarized below:

- Health and Social Services - The Department of Health and Human Services spent $21.5 million (6.4%) less from the General Fund primarily as the result of governor's 5% expenditure reduction in combination with the increased federal matching percentage as discussed in the reversion section above, and the Federal Special Revenue Fund section below.
- Education and Cultural Including the base aid reduction discussed in the reversion section above, Office of Public Instruction expenditures, primarily payments to the local schools for K-12 funding, decreased by 93.3 million (14.2%). This general fund decrease was more than offset by increased higher education funding in the state and federal special revenue funds. Commissioner of Higher Education payments to the University system declined by 34.7 million (18.0%). This decrease resulted from increased federal funding provided for the university system.
- General Government and Economic Development – Most of the economic development function, previously reported as a separate function is now included in the general government function. When this change is included the general government function did not change significantly between fiscal years 2009 and 2010.

**State Special Revenue Fund**
At the end of the current fiscal year, the fund balance of the State Special Revenue Fund was $1.5 billion. Fund balance increased during the fiscal year by $135.3 million (9.7%).

Lower State Special Revenue Fund Revenues – Overall revenues decreased by $142.3 million. This decrease in revenues was more than offset by a $155.9 million (95.6%) increase in transfers in, to the level of $319.0 million. A discussion of the major changes follows:

- Natural resource taxes decreased by $12.9 million (9.66%) This was caused by lower coal, oil and timer production caused by the decreases in demand due to the recession.
- Charges for services/fines/forfeits/settlements decreased by $22.7 million (13.7%) because the state received significantly less in pollution remediation settlement payments in 2010.
- Rentals/leases/royalties decreased $25.9 million (97.6%) as the result of the impacts of the recession on the timber, coal and oil industries.
- Other revenues decreased $111.9 million (97.1%). A material portion of the 2009 pollution remediation settlements were reported under other revenues instead of charges for services/fines- /forfeits/settlements.

Higher State Special Revenue Fund Transfers In - Transfers in increased by 155.9 million (95.6%) primarily as a result of the one-time only Otter Creek transfers from the Land Grant Fund, $81.5 million, and additional ARRA loan funding provided the drinking and waste water programs managed by the Departments of Natural Resources and Environmental Quality.

Higher State Special Revenue Fund Expenditures - Expenditures within the State Special Revenue Fund increased by $110.3 million (11.3%). The increase in the state special revenue fund resulted from:

- The overall increase in the General Government function relates to the reporting change moving most of economic development/assistance to this function. When the impact of this change is considered the overall change between years was an increase of $23.5 million (9.2%). This increase was the result of increased expenditures grants to K-12 schools for facilities and technical projects of $33.5 million.
- Public Safety/Corrections expenditures increased by $11.0 million (16.7%). This increase was driven by increases in pollution remediation/reclamation expenditures from the Atlantic Richfield Corporation Upper Clark Fork River Restoration fund expenditures of $20.0 million.
- Transportation expenditures decreased by $47.1million (20.3%) as the result of increased state funded capital assets spending (result in a move from the transportation funding line to capital outlay) and resources allocated away from state funded projects to federal ARRA and Garvee bonded projects.
- Education/Cultural spending increased $71.7 million because of the Otter Creek coal payment of $81.5 million.
- Capital Outlay increased $7.5 million as the result of increased highway infrastructure construction.

**Federal Special Revenue Fund**

Fund balance in the Federal Special Revenue Fund increased by $12.2 million, 61.3%, to $32.1 million. Revenues increased by $424.3 million (22.5%) and expenditures increased by $407.9 million (22.2%). Because most federal programs are expenditure-driven, a direct correlation normally exists between revenues and expenditures. Programs such as the Guaranteed Student Loan and Livestock Shell/Egg are allowed to carry assets in their federal entities, creating a normal overall positive balance for the fund as a whole.

As a result of federal stimulus funding, expenditures increased significantly in all functions within the Federal Special Revenue Fund. These increases range from $34.5 million (66.2%) in the Resource/Recreation/Environment to $162.5 million (15.2%) in the Health and Human Services functions. Transportation expenditures of $340.3 million were reported as capital outlay. When these federal transportation infrastructure capital outlay expenditures are included the Transportation related expenditures increased overall.

**Coal Severance Tax Permanent Fund**

Fund balance in the Coal Severance Tax Permanent Fund increased by $60.0 million (7.5%). Coal tax revenues decreased $2.4 million (13.0%) due to decreased coal production within the state, while investment earnings increased $46.8 million (143.3%). The decrease coal demand resulted from the continued national recession throughout the year with the investment earning recovering toward the end of the year, more than offsetting the decrease in coal tax revenue.

**Land Grant Permanent Fund**

Fund balance in the Land Grant Permanent Fund increased by $53.8 million (12.0%). Within this fund investment earnings increased by $36.0 million (205.0%) as the result of recovery in investments. The Otter Creek coal bonus payment flowed through this fund and was reflected as $85.8 (100%) increase in this revenue category. Agricultural rentals increased $3.2 million (21.7%) reflecting the strengthening economy in this area. Coal, Gas and oil royalties fell $2.9 million, (36.4%), $1.9 million (40.0%) and $2.3 million (15.7%), respectively. Oil and gas bonus payments fell by $4.7 million, 39.1%. These decreases were caused by the lower overall oil and gas prices resulting in overall reduced production combined with decreased demand for coal resulting from the recession.

Transfers out increased by 90.6 Million (126.3%). These primarily resulted from $81.5 million of the Otter Creek bonus payment, discussed above, and increased earnings, flowing through to the State Special Revenue fund.

**Unemployment Insurance Enterprise Fund**

Net assets restricted for unemployment compensation decreased by $79.4 million (40.5%). This reflects the impact of increased, and sustained, high unemployment throughout fiscal year 2010. Unemployment rose from 5.4% in July to 6.7% in December 2009. The unemployment rate for June 2010 was 7.3%. Unemployment premium collections increased by $13.9 million (18.4%) as a result of recovery act spending. Federal grant revenue increased $109.7 million (165.6%), primarily as a result of continued federal funding for extended benefits. Unemployment benefits paid increased by $119.2 million (50.6%) more than offsetting the increased premium collections and federal funding.

**Economic Development Bonds Enterprise Fund**

Net assets increased by $860,000 in fiscal year 2009. The fund did not experience significant changes in operations during fiscal year 2010. The increase in net assets was primarily generated as the result of earnings of $365,000 and an operating transfer of $495,000 from the board of investment internal service fund.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital Assets**

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2010, amounted to $6.0 billion, net of accumulated depreciation of $1.8 billion, leaving a net book value of $4.2 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the State's investment in capital assets for the current fiscal year was approximately 10.5 % in terms of net book value. Most of the year's capital expenditures were for construction or reconstruction of roads and bridges. Additional information on the State's capital assets can be found in Note 5 of the notes to the financial statements.

**Debt Administration**
Montana receives excellent general obligation bond ratings from both Moody's Investor Service (Aa2), Standard and Poor's Corporation (AA) and Fitch Ratings (AA).

State debt may be authorized either by a two-thirds vote of the members of each house of the Legislature, or by a favorable vote of a majority of the State's electors voting thereon. There is no constitutional limit on the amount of debt that may be incurred by the State. The Montana Constitution does, however, prohibit the incurring of debt to cover deficits caused by appropriations exceeding anticipated revenue.

The State of Montana's general obligation debt decreased from $182.6 million at June 30, 2009, to $169.2 million at June 30, 2010. $13.5 million is available in debt service funds to service this debt leaving a balance of $155.7 million in net general obligation debt outstanding.

The ratio of general obligation debt to personal income and the amount of net general obligation debt per capita are:

| | Amount *(in thousands)* | Percentage of Personal Income (1) | State Debt Per Capita (2) |
|---|---|---|---|
| General obligation debt | $155,664 | 0.46% | $160 |

(1) Personal income is for calendar year 2009.
(2) Based on estimated 2009 Montana population.

More detailed information regarding the State's long-term obligations is presented in Note 11 to the financial statements.

## ECONOMIC CONDITION AND OUTLOOK

The unemployment rate for the State of Montana was 7.2% in the second quarter of 2010, which is a slight decrease from the rate of 7.3% during the second quarter of 2010. This compares favorably with the U.S. November rate of 9.8% but reflects the continued impact of the national recession on Montana's economy.

The 61st Legislative Session adjourned on April 27, 2009, with a projected ending general fund unreserved fund balance of $312.7 million for the end of fiscal year 2010. During fiscal year 2010, Montana's economy continued to weaken as result of the recession but did not experience the severe decline encountered in most other states, with the combined unassigned and assigned General Fund balance, as of June 30, 2010, at the $322.4 million level.

As of June 30, 2010 four of the state retirement systems were not actuarially sound, and had an unfunded actuarially accrued liability. These include the Teachers, Public Employees Defined Benefit Plan, Sheriffs, and Game Warden & Peace Officers retirement systems. The actuarial condition of these plans are fully disclosed and reported as required by Generally Accepted Accounting Principles (GAAP), and explained in greater detail in Note 6 and Note 18 of the financial statements. The unfunded actuarial liability of these plans is long-term in nature, and does not translate into an inability of the plans to meet their current obligations in the near future.

The other state retirement systems are actuarially sound as of fiscal year end 2010.

## REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Montana's finances for all of Montana's citizens, taxpayers, customers, investors, and creditors. The financial report seeks to demonstrate the State's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the State of Montana, State Accounting Division, Room 255 Mitchell Building, Capitol Complex, Helena, MT 59620.

# BASIC FINANCIAL STATEMENTS

**STATEMENT OF NET ASSETS**
JUNE 30, 2010
*(amounts expressed in thousands)*

| | PRIMARY GOVERNMENT | | | |
|---|---|---|---|---|
| | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL | COMPONENT UNITS |
| **ASSETS** | | | | |
| Cash/cash equivalents (Note 3) | $ 1,401,779 | $ 207,829 | $ 1,609,608 | $ 395,293 |
| Receivables (net) | 397,368 | 41,082 | 438,450 | 120,343 |
| Due from primary government | - | - | - | 2,338 |
| Due from other governments | 188,033 | 977 | 189,010 | 23,877 |
| Due from component units | 191 | 1,678 | 1,869 | 522 |
| Internal balances | (9,873) | 9,874 | 1 | - |
| Inventories | 29,502 | 3,378 | 32,880 | 5,031 |
| Advances to component units | 8,469 | 8,352 | 16,821 | - |
| Long-term loans/notes receivable | 332,769 | 38,292 | 371,061 | 757,028 |
| Equity in pooled investments (Note 3) | 1,781,524 | - | 1,781,524 | 31,763 |
| Investments (Note 3) | 376,854 | 7,916 | 384,770 | 1,576,360 |
| Securities lending collateral (Note 3) | 158,738 | 2,785 | 161,523 | 175,575 |
| Deferred charges | 3,468 | 1,494 | 4,962 | 9,261 |
| Other assets | 9,959 | 2,411 | 12,370 | 75,160 |
| Capital assets (net) (Note 5) | 4,149,204 | 14,534 | 4,163,738 | 746,992 |
| Total assets | 8,827,985 | 340,602 | 9,168,587 | 3,919,543 |
| **LIABILITIES** | | | | |
| Accounts payable | 450,107 | 13,684 | 463,791 | 81,015 |
| Lottery prizes payable | - | 3,793 | 3,793 | - |
| Due to primary government | - | - | - | 1,869 |
| Due to other governments | 56,605 | 45 | 56,650 | 146 |
| Due to component units | 2,338 | - | 2,338 | 522 |
| Advances from primary government | - | - | - | 16,821 |
| Deferred revenue | 36,232 | 6,570 | 42,802 | 73,047 |
| Amounts held in custody for others | 38,258 | 20 | 38,278 | 11,372 |
| Securities lending liability (Note 3) | 158,738 | 2,785 | 161,523 | 175,575 |
| Other liabilities | 3,435 | - | 3,435 | 10,914 |
| Short-term debt (Note 11) | - | 96,075 | 96,075 | - |
| Long-term liabilities (Note 11): | | | | |
| Due within one year | 143,535 | 10,250 | 153,786 | 320,871 |
| Due in more than one year | 879,029 | 10,577 | 889,606 | 1,860,456 |
| OPEB implicit rate subsidy (Note 7) | 117,971 | 2,083 | 120,053 | 55,683 |
| Total liabilities | 1,886,248 | 145,882 | 2,032,130 | 2,608,291 |

| | PRIMARY GOVERNMENT | | | |
|---|---|---|---|---|
| | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL | COMPONENT UNITS |
| **NET ASSETS** | | | | |
| Invested in capital assets, net of related debt | $ 3,874,920 | $ 14,534 | $ 3,889,454 | $ 490,287 |
| Restricted for: | | | | |
| General government | 11,909 | - | 11,909 | - |
| Transportation | 102,428 | - | 102,428 | - |
| Health and human services | 15,435 | - | 15,435 | - |
| Natural resources | 222,419 | - | 222,419 | - |
| Public safety | 18,239 | - | 18,239 | - |
| Education | 20,904 | - | 20,904 | - |
| Funds held as permanent investments: | | | | |
| Nonexpendable | 1,184,380 | - | 1,184,380 | 239,110 |
| Expendable | 407,429 | - | 407,429 | - |
| Unemployment compensation | - | 116,530 | 116,530 | - |
| Housing authority | - | - | - | 157,194 |
| Other purposes | - | 42,805 | 42,805 | 101,717 |
| Unrestricted | 1,083,674 | 20,851 | 1,104,525 | 322,944 |
| Total net assets | $ 6,941,737 | $ 194,720 | $ 7,136,457 | $ 1,311,252 |

*The notes to the financial statements are an integral part of this statement.*

**STATEMENT OF ACTIVITIES**
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
*(amounts expressed in thousands)*

| | | PROGRAM REVENUES | | | |
|---|---|---|---|---|---|
| FUNCTIONS/PROGRAMS | EXPENSES | CHARGES FOR SERVICES | OPERATING GRANTS AND CONTRIBUTIONS | CAPITAL GRANTS AND CONTRIBUTIONS | NET (EXPENSE) REVENUE |
| **Primary government:** | | | | | |
| Governmental activities: | | | | | |
| General government | $ 774,881 | $ 127,163 | $ 230,767 | $ 1,841 | $ (415,110) |
| Public safety/corrections | 342,803 | 147,839 | 36,311 | 64 | (158,589) |
| Transportation | 320,085 | 26,531 | 55,971 | 485,924 | 248,341 |
| Health/social services | 1,677,261 | 43,338 | 1,236,261 | - | (397,662) |
| Education/cultural | 1,179,788 | 34,309 | 249,308 | 543 | (895,628) |
| Resource/recreation/environment | 318,300 | 232,861 | 177,359 | 22,624 | 114,544 |
| Principal on long-term debt | - | - | - | - | - |
| Interest on long-term debt | 17,692 | - | - | - | (17,692) |
| Total governmental activities | 4,630,810 | 612,041 | 1,985,977 | 510,996 | (1,521,796) |
| Business-type activities: | | | | | |
| Unemployment Insurance | 354,793 | 89,501 | 182,850 | - | (82,442) |
| Liquor Stores | 61,569 | 68,032 | - | - | 6,463 |
| State Lottery | 36,365 | 46,865 | - | 1,625 | 12,125 |
| Economic Development Bonds | 2,167 | 22 | 2,532 | - | 387 |
| Hail Insurance | 6,238 | 6,915 | 37 | - | 714 |
| General Government Services | 62,797 | 22,601 | 39,687 | 1,549 | 1,040 |
| Prison Funds | 6,463 | 6,304 | - | - | (159) |
| MUS Group Insurance | 72,606 | 64,756 | 943 | - | (6,907) |
| MUS Workers Compensation | 3,900 | 4,979 | - | - | 1,079 |
| Total business-type activities | 606,898 | 309,975 | 226,049 | 3,174 | (67,700) |
| Total primary government | 5,237,708 | 922,016 | 2,212,026 | 514,170 | (1,589,496) |
| **Component units:** | | | | | |
| Housing Authority | 60,603 | 408 | 61,807 | - | 1,612 |
| Montana Surplus Lines | 440 | - | - | - | (440) |
| Facility Finance Authority | 417 | 613 | 76 | - | 272 |
| State Compensation Insurance (New Fund) | 191,796 | 166,265 | - | - | (25,531) |
| State Compensation Insurance (Old Fund) | 2,899 | - | - | - | (2,899) |
| Montana State University | 461,578 | 184,790 | 175,425 | 17,312 | (84,051) |
| University of Montana | 388,812 | 174,859 | 123,691 | 17,025 | (73,237) |
| Total component units | $ 1,106,545 | $ 526,935 | $ 360,999 | $ 34,337 | $ (184,274) |

| | PRIMARY GOVERNMENT | | | |
|---|---|---|---|---|
| | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL | COMPONENT UNITS |
| Changes in net assets: | | | | |
| Net (expense) revenue | $ (1,521,796) | $ (67,700) | $ (1,589,496) | $ (184,274) |
| General revenues: | | | | |
| Taxes: | | | | |
| Property | 235,287 | - | 235,287 | - |
| Fuel | 204,373 | - | 204,373 | - |
| Natural resource | 275,313 | - | 275,313 | - |
| Individual income | 709,699 | - | 709,699 | - |
| Corporate income | 89,033 | - | 89,033 | - |
| Other (Note 1) | 303,859 | 25,017 | 328,876 | - |
| Unrestricted grants and contributions | 461 | - | 461 | 567 |
| Settlements | 77,927 | - | 77,927 | - |
| Unrestricted investment earnings | 172,748 | 244 | 172,992 | 145,170 |
| Payment from State of Montana | - | - | - | 193,318 |
| Gain (loss) on sale of capital assets | 3,244 | 1 | 3,245 | (125) |
| Miscellaneous | 4,247 | 4,377 | 8,624 | 167 |
| Contributions to term and permanent endowments | - | - | - | 6,986 |
| Transfers | 42,486 | (42,486) | - | - |
| Total general revenues, contributions, and transfers | 2,118,677 | (12,847) | 2,105,830 | 346,083 |
| Change in net assets | 596,881 | (80,547) | 516,334 | 161,809 |
| Total net assets - July 1 - as previously reported | 6,445,959 | 275,028 | 6,720,987 | 1,139,762 |
| Prior period adjustments (Note 2) | (101,103) | 239 | (100,864) | 9,681 |
| Total net assets - July 1 - as restated | 6,344,856 | 275,267 | 6,620,123 | 1,149,443 |
| Total net assets - June 30 | $ 6,941,737 | $ 194,720 | $ 7,136,457 | $ 1,311,252 |

The notes to the required supplementary information are an integral part of this schedule.

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# GOVERNMENTAL FUND FINANCIAL STATEMENTS

## General Fund
This fund is the principal operating fund of the State. It accounts for all governmental financial resources, except for those required to be accounted for in another fund.

## State Special Revenue Fund
This fund accounts for all activities funded from state sources, which are restricted either legally or administratively for particular costs of an agency, program, or function.

## Federal Special Revenue Fund
This fund accounts for activities funded from federal sources used in the operation of state government.

## Coal Severance Tax Fund
This fund, created by Article IX, Section 5, of the Montana Constitution and administered by the Department of Revenue, receives 50% of all coal tax collections. The principal can be expended only upon affirmative vote by three-fourths of each house of the Legislature.

## Land Grant Fund
This fund is used by the Department of Natural Resources and Conservation to account for lands granted to the State for support of public schools and state institutions.

## Nonmajor Funds
Nonmajor governmental funds are presented, by fund type, beginning on page 152.

**BALANCE SHEET**
**GOVERNMENTAL FUNDS**
JUNE 30, 2010
*(amounts expressed in thousands)*

| | | SPECIAL REVENUE | | PERMANENT | | | |
|---|---|---|---|---|---|---|---|
| | GENERAL | STATE | FEDERAL | COAL SEVERANCE TAX | LAND GRANT | NONMAJOR | TOTAL |
| **ASSETS** | | | | | | | |
| Cash/cash equivalents (Note 3) | $ 334,959 | $ 768,075 | $ 59,754 | $ 30,257 | $ 17,715 | $ 110,396 | $ 1,321,156 |
| Receivables (net) (Note 4) | 205,421 | 109,357 | 13,070 | 8,081 | 52,730 | 5,849 | 394,508 |
| Interfund loans receivable (Note 12) | 44,210 | 50,503 | - | - | - | - | 94,712 |
| Due from other governments | 12,069 | 759 | 175,199 | - | - | - | 188,027 |
| Due from other funds (Note 12) | 51,920 | 3,545 | 1 | - | 8,550 | 1,467 | 65,483 |
| Due from component units | 17 | 85 | 2 | 86 | - | - | 190 |
| Inventories | 4,027 | 22,990 | - | - | - | - | 27,017 |
| Equity in pooled investments (Note 3) | - | 381,646 | - | 624,333 | 474,087 | 301,457 | 1,781,523 |
| Long-term loans/notes receivable | 96 | 299,576 | 4,247 | - | - | 28,849 | 332,768 |
| Advances to other funds (Note 12) | 1,088 | 19,422 | - | 404 | - | 3,174 | 24,088 |
| Advances to component units | - | - | - | 8,469 | - | - | 8,469 |
| Investments (Note 3) | 6,740 | 121,039 | 2,613 | 198,440 | 983 | 12,204 | 342,019 |
| Securities lending collateral (Note 3) | - | 63,253 | 1,022 | 36,518 | 27,416 | 25,327 | 153,536 |
| Other assets | 2,120 | 6,590 | 247 | - | | - | 8,957 |
| Total assets | 662,667 | 1,846,839 | 256,155 | 906,588 | 581,481 | 488,723 | 4,742,453 |
| **LIABILITIES AND FUND BALANCES** | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable (Note 4) | 189,866 | 87,829 | 120,168 | - | 3,749 | 6,124 | 407,736 |
| Interfund loans payable (Note 12) | - | 7,485 | 85,444 | - | - | 560 | 93,489 |
| Due to other governments | 31 | 54,455 | 2,118 | - | - | - | 56,604 |
| Due to other funds (Note 12) | 443 | 35,553 | 1,653 | 4,287 | 39 | 10,617 | 52,592 |
| Due to component units | 21,918 | 843 | 1,308 | - | 72 | - | 24,141 |
| Advances from other funds (Note 12) | - | 18,596 | 3,283 | - | - | 18,946 | 40,825 |
| Deferred revenue | 98,030 | 30,956 | 8,698 | - | 48,609 | 393 | 186,686 |
| Amounts held in custody for others | 25,372 | 12,285 | 346 | - | 254 | - | 38,257 |
| Securities lending liability (Note 3) | - | 63,253 | 1,022 | 36,518 | 27,416 | 25,327 | 153,536 |
| Other liabilities | - | 731 | - | - | - | - | 731 |
| Total Liabilities | 335,660 | 311,986 | 224,040 | 40,805 | 80,139 | 61,967 | 1,054,597 |
| Fund balances: | | | | | | | |
| Nonspendable | 4,615 | 23,860 | - | 535,714 | 423,982 | 183,739 | 1,171,910 |
| Restricted | - | 789,619 | 32,517 | - | 77,360 | 19,525 | 919,021 |
| Committed | - | 729,551 | - | 330,069 | - | 205,786 | 1,265,406 |
| Assigned | 83,344 | 1,217 | - | - | - | 34,775 | 119,336 |
| Unassigned | 239,047 | (9,392) | (403) | - | - | (17,069) | 212,183 |
| Total fund balances | 327,006 | 1,534,855 | 32,114 | 865,783 | 501,342 | 426,756 | 3,687,856 |
| Total liabilities and fund balances | $ 662,666 | $ 1,846,841 | $ 256,154 | $ 906,588 | $ 581,481 | $ 488,723 | $ 4,742,453 |

*The notes to the financial statements are an integral part of this statement.*

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**Reconciliation of the Balance Sheet - Governmental Funds**
**to the Statement of Net Assets**
June 30, 2010
*(amounts expressed in thousands)*

| | Total Governmental Funds | (A) Internal Service Funds | (B) Capital Assets Balances | (C) Debt Related Balances | (D) Other Measurement Focus Adjustments | (E) Internal Balances Elimination | Statement of Net Assets Totals |
|---|---|---|---|---|---|---|---|
| **ASSETS:** | | | | | | | |
| Cash and cash equivalent | $ 1,321,156 | $ 80,621 | $ - | $ - | $ 2 | $ - | $ 1,401,779 |
| Receivables | 394,508 | 2,877 | - | - | (17) | - | 397,368 |
| Interfund loans receivable | 94,712 | 46 | - | - | - | (94,758) | - |
| Due from other governments | 188,027 | 6 | - | - | - | - | 188,033 |
| Due from other funds | 65,483 | 1,397 | - | - | - | (66,880) | - |
| Due from component units | 190 | - | - | - | 1 | - | 191 |
| Inventories | 27,017 | 2,486 | - | - | (1) | - | 29,502 |
| Internal Balances | - | - | - | - | - | (9,873) | (9,873) |
| Equity in pooled investments | 1,781,523 | - | - | - | 1 | - | 1,781,524 |
| Securites lending collateral | 153,536 | 5,201 | - | - | 1 | - | 158,738 |
| Advances to other funds | 24,088 | - | - | - | - | (24,088) | - |
| Advances to component units | 8,469 | - | - | - | - | - | 8,469 |
| Investments | 342,019 | 34,835 | - | - | - | - | 376,854 |
| Deferred charges | - | - | - | - | 3,468 | - | 3,468 |
| Capital assets | | 95,108 | 4,054,096 | - | - | - | 4,149,204 |
| Long-term loans/notes receivable | 332,768 | - | - | - | 1 | | 332,769 |
| Other assets | 8,957 | 1,004 | (3) | - | 1 | - | 9,959 |
| Total assets | $ 4,742,453 | $ 223,581 | $ 4,054,093 | $ - | $ 3,457 | $ (195,599) | $ 8,827,985 |
| | | | | | | | |
| **LIABILITIES** | | | | | | | |
| Current liabilities | | | | | | | |
| Accounts payable | 407,736 | 15,532 | - | - | 26,839 | - | 450,107 |
| Interfund loans payable | 93,489 | 1,355 | - | - | - | (94,844) | - |
| Due to other government | 56,604 | 1 | - | - | - | - | 56,605 |
| Due to other funds | 52,592 | 2,000 | - | - | - | (54,592) | - |
| Due to component units | 24,141 | - | - | - | (21,803) | - | 2,338 |
| Advances from other funds | 40,825 | 5,338 | - | - | - | (46,163) | - |
| Deferred revenue | 186,686 | 1,276 | - | - | (151,730) | - | 36,232 |
| Amounts held in custody for others | 38,257 | - | - | - | 1 | - | 38,258 |
| Securities lending liability | 153,536 | 5,201 | - | - | 1 | - | 158,738 |
| Other current liabilites | 731 | - | - | - | 2,704 | - | 3,435 |
| Long term liabilities | | | | | | | |
| Due within one year | - | 20,350 | - | 123,185 | - | - | 143,535 |
| Due in more than one year | - | 16,879 | - | 862,150 | - | - | 879,029 |
| OPEB implicit rate subsidy | - | 6,562 | - | 111,409 | - | - | 117,971 |
| Total liabilities | 1,054,597 | 74,494 | - | 1,096,744 | (143,988) | (195,599) | 1,886,248 |
| | | | | | | | |
| **NET ASSETS** | | | | | | | |
| Invested in capital assets, net of related debt | - | 95,108 | 4,054,093 | (274,281) | - | - | 3,874,920 |
| Restricted for: | | | | | | | |
| General government | 13,785 | - | - | (2,811) | 935 | - | 11,909 |
| Transportation | 102,520 | - | - | (22,643) | 22,551 | - | 102,428 |
| Health and human services | 22,367 | - | - | (6,931) | - | - | 15,436 |
| Natural resouces | 438,410 | - | - | (221,195) | 5,204 | - | 222,419 |
| Public safety | 317,295 | - | - | (299,056) | - | - | 18,239 |
| Education | 24,644 | - | - | (3,746) | 6 | - | 20,904 |
| Nonexpendable | 1,171,911 | - | - | - | 12,469 | - | 1,184,380 |
| Expendable | - | - | - | - | 407,429 | - | 407,429 |
| Unrestricted | 1,596,924 | 53,979 | - | (266,081) | (301,149) | - | 1,083,673 |
| Total net assets | $ 3,687,856 | $ 149,087 | $ 4,054,093 | $ (1,096,744) | $ 147,445 | $ - | $ 6,941,737 |

**Differences between the Balance Sheet- Governmental Funds and Governmental Activities on the Government Wide Statement of Net Assets**

(A) Management uses Internal Services funds to report the charges for and the costs of goods and services sold by state agencies solely within the state. Because the sales are primarily to governmental funds, the assets and liabilities of the Internal Service Funds are included in the governmental activities on the government-wide Statement of Net Assets. Internal Service Funds are reported using proprietary fund-type accounting in the fund-level financial statements. See page 192 for the listing of the Internal Service Funds

(B) Capital assets used in governmental activities are not financial resources, and therefore, they are not included in the fund level financial statements. However, capital assets are economic resources and are reported in the government-wide Statement of Net Assets.

(C) Long term liabilities such as leases, bonds, notes, mortgages, (including accrued interest) are not due and payable in the current period, and therefore, they are not included in the fund –level financial statements. However, from an economic perspective these liabilities reduce net assets and are reported in the Statement of Net Assets.

(D) Other measurement focus adjustments include:

- Interfund balances receivable from or payable to Fiduciary funds are reported on the fund- level Balance Sheet- Governmental funds as due from/to other funds. On the government –wide Statement of Net Assets, these amounts are considered external receivables and payables.
- Long-term assets and long-term taxes receivable are not available to pay for current period expenditures; therefore, the related revenue is reported as deferred revenue on the fund-level Balance Sheet- Governmental funds. From an economic perspective, this revenue is earned and the related deferred revenue is removed from the government –wide Statement of Net Assets when the revenue is recognized on the government-wide statement of Activities.
- Other long term liabilities are not reported on the fund-level Balance Sheet- Governmental Funds because the amounts are not due and payable from current financial resources. However, from an economic perspective, these liabilities reduce net assets, and they are therefore reported on the government-wide Statement of Net Assets.

(E) All interfund payable balances shown on the fund-level Balance Sheet –Governmental Funds are reported in the internal balances line on the governmental-wide Statement of Net Assets along with all governmental activities interfund receivables.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**
**GOVERNMENTAL FUNDS**
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
*(amounts expressed in thousands)*

| | | SPECIAL REVENUE | | PERMANENT | | | |
|---|---|---|---|---|---|---|---|
| | GENERAL | STATE | FEDERAL | COAL SEVERANCE TAX | LAND GRANT | NONMAJOR | TOTAL |
| **REVENUES** | | | | | | | |
| Licenses/permits | $ 121,315 | $ 160,496 | $ - | $ - | $ 1,432 | $ 415 | $ 283,658 |
| Taxes: | | | | | | | |
| Natural resource | 126,342 | 120,872 | - | 21,582 | - | 6,682 | 275,478 |
| Individual income | 700,078 | - | - | - | - | - | 700,078 |
| Corporate income | 90,763 | 6 | - | - | - | - | 90,769 |
| Property | 220,724 | 14,564 | - | - | - | - | 235,288 |
| Fuel | - | 204,373 | - | - | - | - | 204,373 |
| Other (Note 1) | 205,425 | 96,119 | - | - | - | 1,897 | 303,441 |
| Charges for services/fines/forfeits/settlements | 45,167 | 143,098 | 36,736 | - | - | 13,757 | 238,758 |
| Investment earnings | 4,042 | 52,201 | 112 | 79,419 | 53,505 | 43,389 | 232,668 |
| Securities lending income | 368 | 647 | 12 | 540 | 420 | 303 | 2,290 |
| Sale of documents/merchandise/property | 247 | 5,417 | 13 | - | 8,387 | 3,435 | 17,499 |
| Rentals/leases/royalties | 20 | 645 | - | - | 142,925 | 124 | 143,714 |
| Contributions/premiums | 19 | 19,705 | - | - | - | - | 19,724 |
| Grants/contracts/donations | 8,499 | 18,708 | 101 | - | 16 | - | 27,324 |
| Federal | 35,005 | 13,407 | 2,222,804 | - | - | - | 2,271,216 |
| Federal indirect cost recoveries | 168 | 59,387 | 53,363 | - | - | - | 112,918 |
| Other revenues | 1,093 | 3,331 | 187 | - | - | (92) | 4,519 |
| Total revenues | 1,559,275 | 912,976 | 2,313,328 | 101,541 | 206,685 | 69,910 | 5,163,715 |
| **EXPENDITURES** | | | | | | | |
| Current: | | | | | | | |
| General government | 256,375 | 279,053 | 129,068 | - | | 1,696 | 666,192 |
| Public safety/corrections | 249,288 | 76,369 | 12,737 | - | - | 382 | 338,776 |
| Transportation | 210 | 184,875 | 12,112 | | - | - | 197,197 |
| Health/social services | 315,492 | 126,693 | 1,232,048 | - | - | 1,020 | 1,675,253 |
| Education/cultural | 733,001 | 159,730 | 288,841 | - | - | 19 | 1,181,591 |
| Resource/recreation/environment | 33,001 | 166,283 | 86,699 | - | 2,916 | 14 | 288,913 |
| Debt service: | | | | | | | |
| Principal retirement | 347 | 378 | 202 | - | - | 30,755 | 31,682 |
| Interest/fiscal charges | 38 | 726 | 19 | - | - | 17,430 | 18,213 |
| Capital outlay | 6,712 | 81,409 | 479,257 | - | - | 83,211 | 650,589 |
| Securities lending | 127 | 248 | 4 | 213 | 165 | 116 | 873 |
| Total expenditures | 1,594,591 | 1,075,764 | 2,240,987 | 213 | 3,081 | 134,643 | 5,049,279 |
| Excess of revenue over (under) expenditures | (35,316) | (162,788) | 72,341 | 101,328 | 203,604 | (64,733) | 114,436 |
| **OTHER FINANCING SOURCES (USES)** | | | | | | | |
| Inception of lease/installment contract | 66 | 63 | 43 | - | - | - | 172 |
| Insurance proceeds | - | 670 | - | - | - | - | 670 |
| General capital asset sale proceeds | 49 | 632 | 39 | - | 2,888 | 6 | 3,614 |
| Refunding bond issued | - | 8,050 | - | - | - | 20,220 | 28,270 |
| Payment to refunding bond escrow agent | - | (8,163) | - | - | - | (20,985) | (29,148) |
| Bond premium | - | 319 | - | - | - | 975 | 1,294 |
| Bond proceeds | - | 3,800 | - | - | - | - | 3,800 |
| Transfers in (Note 12) | 71,135 | 319,014 | 7,031 | 239 | 910 | 92,716 | 491,045 |
| Transfers out (Note 12) | (121,440) | (32,447) | (67,290) | (41,555) | (162,316) | (25,638) | (450,686) |
| Total other financing sources (uses) | (50,190) | 291,938 | (60,177) | (41,316) | (158,518) | 67,294 | 49,031 |
| Net change in fund balances | (85,506) | 129,150 | 12,164 | 60,012 | 45,086 | 2,561 | 163,467 |
| Fund balances - July 1 - as previously reported | 418,517 | 1,399,584 | 19,908 | 805,771 | 447,534 | 432,171 | 3,523,485 |
| Prior period adjustments (Note 2) | (5,875) | 4,142 | 42 | - | 8,722 | (7,976) | (945) |
| Fund balances - July 1 - as restated | 412,642 | 1,403,726 | 19,950 | 805,771 | 456,256 | 424,195 | 3,522,540 |
| Increase (decrease) in inventories | (130) | 1,979 | - | - | - | - | 1,849 |
| Fund balances - June 30 | $ 327,006 | $ 1,534,855 | $ 32,114 | $ 865,783 | $ 501,342 | $ 426,756 | $ 3,687,856 |

*The notes to the financial statements are in integral part of this statement.*

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**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities**

JUNE 30, 2010

*(amounts expressed in thousands)*

| | Total Governmental Funds | A Internal Service Funds | B Capital Related Items | C Long Term Debt Transactions | D Other Measurement Focus | Statement of Activities Totals |
|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | |
| License/permits | $ 283,658 | $ - | $ - | $ - | $ - | $ 283,658 |
| Taxes: | | | | | | |
| Natural resouces | 275,478 | - | - | - | (165) | 275,313 |
| Individual income | 700,078 | - | - | - | 9,621 | 709,699 |
| Corporate income | 90,769 | - | - | - | (1,736) | 89,033 |
| Property | 235,288 | - | - | - | (1) | 235,287 |
| Fuel | 204,373 | - | - | - | - | 204,373 |
| Other | 303,441 | - | - | - | 418 | 303,859 |
| Charges for services/fines/forfeits/settlements | 238,758 | - | - | - | (13,987) | 224,771 |
| Investment earnings | 234,958 | (4,046) | - | - | (58,164) | 172,748 |
| Sale of documents/merchandise/property | 17,499 | - | - | - | - | 17,499 |
| Rentals/leases/royalties | 143,714 | - | - | - | (17) | 143,697 |
| Contributions/premiums | 19,724 | - | - | - | - | 19,724 |
| Insurance proceeds | 670 | (238) | - | - | 185 | 617 |
| Capital contributions | - | - | - | - | 510,996 | 510,996 |
| Gain (Loss) on sale of capital assets | - | - | - | - | 3,244 | 3,244 |
| Grants contracts and donations | 27,324 | - | - | - | (27,324) | - |
| Unrestricted grants and contributions | - | - | - | - | 461 | 461 |
| Federal | 2,271,216 | - | - | - | (285,238) | 1,985,978 |
| Federal indirect cost recovery | 112,918 | - | - | - | (112,918) | - |
| Other revenues | 4,519 | (1,673) | - | - | 1,401 | 4,247 |
| Total revenues | 5,164,385 | (5,957) | - | - | 26,776 | 5,185,204 |
| **EXPENDITURES** | | | | | | |
| Current: | | | | | | |
| Current | 4,347,922 | - | 48,776 | - | 216,420 | 4,613,118 |
| Debt service | - | - | - | - | - | - |
| Principal | 31,682 | - | - | (31,682) | - | - |
| Interest/fiscal charges | 18,213 | - | - | (522) | | 17,691 |
| Capital outlay | 650,589 | - | (650,589) | - | - | - |
| Securities lending | 873 | - | - | - | (873) | - |
| Total expenditures | 5,049,279 | - | (601,813) | (32,204) | 215,547 | 4,630,809 |
| Excess of revenue over (under) expenditures | 115,106 | (5,957) | 601,813 | 32,204 | (188,771) | 554,395 |
| **OTHER FINANCING SOURCES (USES)** | | | | | | |
| Inception of lease/installment contract | 172 | 230 | - | (402) | - | - |
| General capital asset sale proceeds | 3,614 | - | - | (3,614) | - | - |
| Refunding bonds issued | 28,270 | - | - | (28,270) | - | - |
| Payment to refunding bonds escrow agent | (29,148) | - | - | 29,148 | - | - |
| Bond premium | 1,294 | - | - | (1,294) | - | - |
| Bond proceeds | 3,800 | - | - | (3,800) | - | - |
| Transfers in | 40,359 | (1,626) | - | - | 3,753 | 42,486 |
| Total other financing sources (usese) | 48,361 | (1,396) | - | (8,232) | 3,753 | 42,486 |
| Net change in fund balance | $ 163,467 | $ (7,353) | $ 601,813 | $ 23,972 | $ (185,018) | $ 596,881 |

**Differences between the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds and Governmental Activities on the Government –Wide Statement of Activities**

(A) Management uses the Internal Services Funds (ISF) to report charges for and the costs of goods and services sold by state agencies solely within the state. ISF are intended to operate on the cost reimbursement basis and should break even each period. If an ISF makes a profit, the other funds of the state have been overcharged. If an ISF has an operating loss the other funds of the state have been undercharged. In order to show the true cost of services purchased from ISF, an adjustment is made that allocates the net revenue/expense of each ISF to the programs that purchased the services. Investment income, debt service, and transfers of the ISF are not allocated. See page 192 for the listing of ISF.

(B) The following adjustments relate to capital assets:

- Capital assets, received as donations, are not reported on the fund-level Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds because they are not current financial resources. However, such donations increase net assets and are reported on both the government – wide Statement of Net Assets and Statement of Activities.
- Depreciation is not reported on the fund-level Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds, but it is reported for the economic perspective on which the government –wide Statement of Activities is presented.
- Expenditures reported for capital outlay on the fund-level Statement of Revenues, Expenditures and changes in Fund Balances - Governmental Funds are generally reported as a conversion of cash to a capital asset on the government wide Statement of Net Assets. They are not reported as expenses on the government –wide Statement of Activities.
- On the fund –level Statement of Revenues, Expenditures, and Changes in fund Balances - Governmental Funds all cash received on disposal of capital assets is reported as a gain on sale of capital assets. On the government-wide Statement of Activities the reported gain or loss on sale is based on the carrying value of the assets as well as the cash received.

(C) The following adjustments relate to debt issuance and debt service including leases:

- Payments on principal and debt refunding payments are reported as expenditures and other financing uses, respectively on the fund-level Statement of Revenues, Expenditures, and Changes in Fund Balances – governmental Funds. These payments are reported as reduction of lease, bonds and other debt liability balances on the government – wide Statement of Net Assets and are not reported on the government – wide Statement of Activities.
- Amortization of issuance cost, debt premium/discount, gains/loss on refunding are not reported on the fund-level Statement of Revenues, Expenditures, and Changes in Fund Balances- - Governmental Funds, but are reported on the government – wide state of Activities.
- Lease proceeds, issuance of debt, and debt refunding proceeds are all reported as other financing sources at the fund level Statement of Revenues, Expenditures, and Changes in fund Balances – Governmental Funds. From an economic perspective lease proceeds, debt issuances, and debt refunding proceeds reported as liabilities on the government-wide Statement of Net Assets and are not reported on the government – wide Statement of Activities.

(D) Other measurement focus adjustments include;

- Long-term taxes receivable and certain other long-term assets are offset by deferred revenue and are not part of fund balance on the fund-level Balance Sheet - Governmental Funds; however, from a full accrual perspective, changes in the fund –level deferred revenue balances result in adjustments to revenue that are recognized and reported on the government-wide Statement of Activities.

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# PROPRIETARY FUND FINANCIAL STATEMENTS

## Unemployment Insurance

The Unemployment Insurance Fund accounts for employer contributions deposited with the Secretary of the Treasury of the United States to the credit of the State's unemployment trust fund. Unemployment benefits are paid from this fund to eligible recipients.

## Economic Development Bonds

The Economic Development Bonds Fund accounts for the Economic Development Bond Act programs and the Municipal Finance Consolidation Act programs. These programs assist Montana's small businesses, local governments, and state agencies in obtaining long-term, fixed-rate financing through private Montana lending institutions.

## Nonmajor Funds

Nonmajor enterprise funds are presented beginning on page 170.

## Governmental Activities – Internal Service Funds

Internal service funds are used to account for operations that provide goods or services to other agencies or programs of state government on a cost-reimbursement basis. These funds are presented in more detail beginning on page 192.

**STATEMENT OF NET ASSETS**
**PROPRIETARY FUNDS**
JUNE 30, 2010
*(amounts expressed in thousands)*

| | BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS | | | | GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS |
|---|---|---|---|---|---|
| | UNEMPLOYMENT INSURANCE | ECONOMIC DEVELOPMENT BONDS | NONMAJOR | TOTAL | |
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash/cash equivalents (Note 3) | $ 110,042 | $ 16,841 | $ 80,946 | $ 207,829 | $ 80,621 |
| Receivables (net) (Note 4) | 6,935 | 7,180 | 26,967 | 41,082 | 2,877 |
| Interfund loans receivable (Note 12) | - | - | 131 | 131 | 45 |
| Due from other governments | 20 | - | 957 | 977 | 7 |
| Due from other funds (Note 12) | - | 3,920 | - | 3,920 | 1,397 |
| Due from component units | - | 1,645 | 33 | 1,678 | - |
| Inventories | - | - | 3,378 | 3,378 | 2,486 |
| Short-term investments (Note 3) | - | 1,638 | - | 1,638 | - |
| Securities lending collateral (Note 3) | - | 8 | 2,777 | 2,785 | 5,201 |
| Other current assets | - | - | 688 | 688 | 1,003 |
| Total current assets | 116,997 | 31,232 | 115,877 | 264,106 | 93,637 |
| Noncurrent assets: | | | | | |
| Advances to other funds (Note 12) | - | 22,000 | 75 | 22,075 | - |
| Advances to component units | - | 8,352 | - | 8,352 | - |
| Long-term investments (Note 3) | - | 1,915 | 4,363 | 6,278 | 34,835 |
| Long-term notes/loans receivable | - | 37,988 | 304 | 38,292 | - |
| Deferred charges | - | 1,494 | - | 1,494 | - |
| Other long-term assets | - | - | 1,723 | 1,723 | - |
| Capital assets (Note 5): | | | | | |
| Land | - | - | 800 | 800 | 236 |
| Land improvements | - | - | 3,830 | 3,830 | 95 |
| Buildings/improvements | - | - | 7,454 | 7,454 | 4,704 |
| Equipment | - | 4 | 7,293 | 7,297 | 219,624 |
| Infrastructure | - | - | 915 | 915 | - |
| Construction in progress | - | - | 1,537 | 1,537 | 5,835 |
| Intangible assets | - | - | 91 | 91 | 765 |
| Other Depreciable Assets | - | - | 3,145 | 3,145 | - |
| Less accumulated depreciation | - | (3) | (10,532) | (10,535) | (136,148) |
| Total capital assets | - | 1 | 14,533 | 14,534 | 95,111 |
| Total noncurrent assets | - | 71,750 | 20,998 | 92,748 | 129,946 |
| Total assets | 116,997 | 102,982 | 136,875 | 356,854 | 223,583 |

**STATEMENT OF NET ASSETS**
**PROPRIETARY FUNDS**
JUNE 30, 2010
*(amounts expressed in thousands)*

| | BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS | | | | GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS |
|---|---|---|---|---|---|
| | UNEMPLOYMENT INSURANCE | ECONOMIC DEVELOPMENT BONDS | NONMAJOR | TOTAL | |
| **LIABILITIES** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable (Note 4) | $ 461 | $ 186 | $ 13,037 | $ 13,684 | $ 15,532 |
| Lottery prizes payable | - | - | 2,570 | 2,570 | - |
| Interfund loans payable (Note 12) | - | - | 45 | 45 | 1,355 |
| Due to other governments | - | - | 45 | 45 | - |
| Due to other funds (Note 12) | - | - | 16,207 | 16,207 | 2,000 |
| Deferred revenue | 6 | - | 6,564 | 6,570 | 1,276 |
| Lease/installment purchase payable (Note 10) | - | - | - | - | 519 |
| Short-term debt (Note 11) | - | 96,075 | - | 96,075 | - |
| Bonds/notes payable - net (Note 11) | - | 175 | - | 175 | - |
| Amounts held in custody for others | - | - | 20 | 20 | - |
| Securities lending liability (Note 3) | - | 8 | 2,777 | 2,785 | 5,201 |
| Estimated insurance claims (Note 8) | - | - | 9,292 | 9,292 | 16,820 |
| Compensated absences payable (Note 11) | - | 14 | 757 | 771 | 3,015 |
| Arbitrage rebate tax payable (Note 11) | - | 12 | - | 12 | - |
| Total current liabilities | 467 | 96,470 | 51,314 | 148,251 | 45,718 |
| Noncurrent liabilities: | | | | | |
| Lottery prizes payable | - | - | 1,223 | 1,223 | - |
| Advances from other funds (Note 12) | - | - | - | - | 5,338 |
| Lease/installment purchase payable (Note 10) | - | - | - | - | 912 |
| Bonds/notes payable - net (Note 11) | - | 195 | - | 195 | - |
| Estimated insurance claims (Note 8) | - | - | 9,559 | 9,559 | 12,864 |
| Compensated absences payable (Note 11) | - | 12 | 811 | 823 | 3,102 |
| Arbitrage rebate tax payable (Note 11) | - | - | - | - | - |
| OPEB implicit rate subsidy (Note 7) | - | 40 | 2,043 | 2,083 | 6,562 |
| Total noncurrent liabilities | - | 247 | 13,636 | 13,883 | 28,778 |
| Total liabilities | 467 | 96,717 | 64,950 | 162,134 | 74,496 |
| **NET ASSETS** | | | | | |
| Invested in capital assets, net of related debt | - | 1 | 14,533 | 14,534 | 95,111 |
| Restricted for: | | | | | |
| Unemployment Compensation | 116,530 | - | - | 116,530 | - |
| Other Purposes | - | 2,210 | 40,595 | 42,805 | - |
| Unrestricted | - | 4,054 | 16,797 | 20,851 | 53,976 |
| Total net assets | $ 116,530 | $ 6,265 | $ 71,925 | $ 194,720 | $ 149,087 |

*The notes to the financial statements are an integral part of this statement*

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**
**PROPRIETARY FUNDS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**
*(amounts expressed in thousands)*

| | BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS | | | | GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS |
|---|---|---|---|---|---|
| | UNEMPLOYMENT INSURANCE | ECONOMIC DEVELOPMENT BONDS | NONMAJOR | TOTAL | |
| **Operating revenues:** | | | | | |
| Charges for services | $ - | $ 22 | $ 129,080 | $ 129,102 | $ 137,939 |
| Investment earnings | 6,874 | 262 | 274 | 7,410 | 2,473 |
| Securities lending income | - | - | 32 | 32 | 52 |
| Financing income | - | 2,270 | - | 2,270 | (22) |
| Contributions/premiums | 89,500 | - | 91,074 | 180,574 | 117,854 |
| Grants/contracts/donations | 175,976 | - | 40,603 | 216,579 | 2,235 |
| Other operating revenues | 3,258 | - | 1,418 | 4,676 | 2,973 |
| Total operating revenues | 275,608 | 2,554 | 262,481 | 540,643 | 263,504 |
| **Operating expenses:** | | | | | |
| Personal services | - | 206 | 13,119 | 13,325 | 49,630 |
| Contractual services | - | 26 | 14,681 | 14,707 | 23,658 |
| Supplies/materials | - | 6 | 62,588 | 62,594 | 23,641 |
| Benefits/claims | 354,779 | 11 | 124,906 | 479,696 | 109,803 |
| Depreciation | - | - | 743 | 743 | 11,954 |
| Amortization | - | - | 37 | 37 | 534 |
| Utilities/rent | - | 45 | 963 | 1,008 | 16,636 |
| Communications | - | 9 | 1,373 | 1,382 | 12,233 |
| Travel | - | 2 | 246 | 248 | 336 |
| Repairs/maintenance | - | - | 901 | 901 | 10,556 |
| Lottery prize payments | - | - | 25,941 | 25,941 | - |
| Securities lending expense | - | - | 8 | 8 | - |
| Interest expense | - | 1,836 | - | 1,836 | 229 |
| Arbitrage rebate tax | - | (7) | - | (7) | - |
| Dividend expense | - | - | 1,867 | 1,867 | - |
| Other operating expenses | 15 | 33 | 2,481 | 2,529 | 4,710 |
| Total operating expenses | 354,794 | 2,167 | 249,854 | 606,815 | 263,920 |
| Operating income (loss) | (79,186) | 387 | 12,627 | (66,172) | (416) |
| **Nonoperating revenues (expenses):** | | | | | |
| Tax revenues | - | - | 25,017 | 25,017 | - |
| Insurance proceeds | - | - | - | - | 238 |
| Gain (loss) on sale of capital assets | - | - | (80) | (80) | 17 |
| Federal indirect cost recoveries | - | - | - | - | 5,885 |
| Total nonoperating revenues (expenses) | - | - | 24,937 | 24,937 | 6,140 |
| Income (loss) before contributions and transfers | (79,186) | 387 | 37,564 | (41,235) | 5,724 |
| Capital contributions | - | - | 3,174 | 3,174 | 1,306 |
| Transfers in (Note 12) | - | 472 | 50 | 522 | 1,908 |
| Transfers out (Note 12) | (188) | - | (42,820) | (43,008) | (1,587) |
| Change in net assets | (79,374) | 859 | (2,032) | (80,547) | 7,351 |
| Total net assets - July 1 - as previously reported | 195,904 | 5,406 | 73,719 | 275,029 | 139,466 |
| Prior period adjustments (Note 2) | - | - | 238 | 238 | 2,270 |
| Total net assets - July 1 - as restated | 195,904 | 5,406 | 73,957 | 275,267 | 141,736 |
| Total net assets - June 30 | $ 116,530 | $ 6,265 | $ 71,925 | $ 194,720 | $ 149,087 |

*The notes to the financial statements are in integral part of this statement.*

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**STATEMENT OF CASH FLOWS**
**PROPRIETARY FUNDS**
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
*(amounts expressed in thousands)*

| | BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS | | | | GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS |
|---|---|---|---|---|---|
| | UNEMPLOYMENT INSURANCE | ECONOMIC DEVELOPMENT BONDS | NONMAJOR | TOTAL | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Receipts from sales and services | $ 87,273 | $ 22 | $ 224,917 | $ 312,212 | $ 262,092 |
| Payments to suppliers for goods and services | (15) | (122) | (118,717) | (118,854) | (91,169) |
| Payments to employees | - | (214) | (14,140) | (14,354) | (51,069) |
| Grant receipts | 175,982 | - | 39,869 | 215,851 | 2,235 |
| Cash payments for claims | (355,180) | - | (85,276) | (440,456) | (110,739) |
| Cash payments for prizes | - | - | (24,828) | (24,828) | - |
| Other operating revenues | 3,265 | - | 1,438 | 4,703 | 11,646 |
| Other operating payments | - | - | (2,595) | (2,595) | - |
| Net cash provided by (used for) operating activities | (88,675) | (314) | 20,668 | (68,321) | 22,996 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | | | |
| Collection of taxes | - | - | 24,959 | 24,959 | |
| Transfers to other funds | (188) | - | (44,314) | (44,502) | (1,487) |
| Transfers from other funds | - | 472 | (258) | 214 | 6,253 |
| Proceeds from interfund loans/advances | (1,336) | - | (25) | (1,361) | (1,714) |
| Payments of interfund loans/advances | - | - | (105) | (105) | 497 |
| Payment of principal and interest on bonds and notes | - | (7,733) | - | (7,733) | (506) |
| Proceeds from issuance of bonds and notes | - | 12,131 | - | 12,131 | - |
| Payment of bond issuance costs | - | (280) | - | (280) | - |
| Contributed capital transfers from other funds | - | - | - | - | 1,308 |
| Net cash provided by (used for) noncapital financing activities | (1,524) | 4,590 | (19,743) | (16,677) | 4,351 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | | |
| Proceeds from insurance | - | - | - | - | 235 |
| Acquisition of capital assets | - | - | (1,245) | (1,245) | (12,669) |
| Proceeds from sale of capital assets | - | - | (73) | (73) | - |
| Net cash used for capital and related financing activities | - | - | (1,318) | (1,318) | (12,434) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Purchase of investments | - | (508) | 320 | (188) | (1,655) |
| Proceeds from sales or maturities of investments | - | 1,728 | 1,699 | 3,427 | - |
| Proceeds from securities lending transactions | - | - | 28 | 28 | 53 |
| Interest and dividends on investments | 6,874 | 318 | 182 | 7,374 | 2,583 |
| Payment of securities lending costs | - | - | 41 | 41 | (22) |
| Collections of principal and interest on loans | - | 27,934 | - | 27,934 | - |
| Cash payment for loans | - | (26,359) | - | (26,359) | - |
| Net cash provided by (used for) investing activities | 6,874 | 3,113 | 2,270 | 12,257 | 959 |
| Net increase (decrease) in cash and cash equivalents | (83,325) | 7,389 | 1,877 | (74,059) | 15,872 |
| Cash and cash equivalents, July 1 | 193,368 | 9,450 | 78,649 | 281,467 | 64,752 |
| Cash and cash equivalents, June 30 | $ 110,043 | $ 16,839 | $ 80,526 | $ 207,408 | $ 80,624 |

*The notes to the financial statements are an integral part of this statement.*

| | BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS | | | | GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS |
|---|---|---|---|---|---|
| | UNEMPLOYMENT INSURANCE | ECONOMIC DEVELOPMENT BONDS | NONMAJOR | TOTAL | |
| **Reconciliation of operating income to net cash provided by operating activities:** | | | | | |
| Operating income (loss) | $ (79,179) | $ 387 | $ 12,627 | $ (66,165) | $ (416) |
| **Adjustments to reconcile operating income to net cash provided by (used for) operating activities:** | | | | | |
| Depreciation | - | - | 743 | 743 | 11,953 |
| Amortization | - | - | 37 | 37 | 535 |
| Loss on Equipment | - | 2 | - | 2 | - |
| Interest expense | - | 1,836 | - | 1,836 | 229 |
| Securities lending expense | - | - | 8 | 8 | 14 |
| Investment Earnings | (6,874) | (262) | (219) | (7,355) | (2,473) |
| Securities lending income | - | - | (25) | (25) | (53) |
| Financing income | - | (2,270) | - | (2,270) | - |
| Federal indirect cost recoveries | - | - | - | - | 5,885 |
| Arbitrage rebate tax | - | (7) | - | (7) | - |
| Change in assets and liabilities: | | | | - | - |
| Decr (incr) in accounts receivable | (2,311) | - | (3,443) | (5,754) | 5,747 |
| Decr (incr) in due from other funds | 131 | - | 572 | 703 | 1,014 |
| Decr (incr) in due from component units | (14) | - | 2,984 | 2,970 | (1,094) |
| Decr (incr) in due from other governments | - | - | (284) | (284) | (4) |
| Decr (incr) in inventories | - | - | (434) | (434) | (148) |
| Decr (incr) in other assets | - | (1) | 2,513 | 2,512 | (503) |
| Incr (decr) in accounts payable | (428) | (6) | 892 | 458 | 323 |
| Incr (decr) in lottery prizes payable | - | - | 1,113 | 1,113 | - |
| Incr (decr) in due to other funds | - | (2) | 247 | 245 | (1,140) |
| Incr (decr) in due to component units | - | - | (6) | (6) | (17) |
| Incr (decr) in due to other governments | - | - | (8) | (8) | - |
| Incr (decr) in deferred revenue | 5 | - | 1,566 | 1,571 | 95 |
| Incr (decr) in amounts held in custody for others | (5) | - | - | (5) | - |
| Incr (decr) in compensated absences payable | - | (2) | 82 | 80 | (41) |
| Incr (decr) in OPEB implicit rate subsidy | - | 11 | 508 | 519 | 2,012 |
| Incr (decr) in estimated claims | - | - | 1,195 | 1,195 | 1,078 |
| Net cash provided by (used for) operating activities | $ (88,675) | $ (314) | $ 20,668 | $ (68,321) | $ 22,996 |
| **Schedule of noncash transactions:** | | | | | |
| Capital asset acquisitions from contributed capital | $ - | $ - | $ - | $ - | $ - |
| Capital contributions from other funds | $ - | $ - | $ 3,174 | $ 3,174 | $ - |
| Amortization of bond issuance costs | $ - | $ - | $ - | $ - | $ - |
| Incr (decr) in fair value of investments | $ - | $ 44 | $ - | $ 44 | $ - |
| Total noncash transactions | $ - | $ 44 | $ 3,174 | $ 3,218 | $ - |

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# FIDUCIARY FUND FINANCIAL STATEMENTS

## Pension (and Other Employee Benefit) Trust Funds

These funds provide retirement, disability, death, and lump-sum payments to retirement system members.

## Private-Purpose Trust Funds

These funds are used to account for assets held by the State in a trustee capacity, where both the principal and earnings benefit individuals, private organizations, or other governments.

## Investment Trust Fund

This fund accounts for the receipt of monies by the Montana Board of Investments for investment in the Short-term Investment Pool (STIP), an external investment pool, and the distribution of related investment earnings to local government agencies.

## Agency Funds

Agency funds are used to account for assets held by the State as an agent for individuals, private organizations, and other governments.

Individual funds are presented, by fund type, beginning on page 211.

**STATEMENT OF FIDUCIARY NET ASSETS**
**FIDUCIARY FUNDS**
JUNE 30, 2010
*(amounts expressed in thousands)*

| | PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS | PRIVATE-PURPOSE TRUST FUNDS | INVESTMENT TRUST | AGENCY FUNDS |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash/cash equivalents (Note 3) | $ 129,257 | $ 146,967 | $ 336,972 | $ 25,188 |
| Receivables (net): | | | | |
| Accounts receivable | 21,323 | - | - | 393 |
| Interest | 10,750 | 7 | 112 | - |
| Due from primary government | 21,804 | - | - | - |
| Due from other PERB plans | 294 | - | - | - |
| Long-term loans/notes receivable | 32 | - | - | - |
| Total receivables | 54,203 | 7 | 112 | 393 |
| Investments at fair value: | | | | |
| Equity in pooled investments (Note 3) | 6,376,942 | - | - | - |
| Other investments (Note 3) | 438,617 | 120,311 | 21,619 | 17 |
| Total investments | 6,815,559 | 120,311 | 21,619 | 17 |
| Securities lending collateral (Note 3) | 426,940 | 843 | 13,817 | 11 |
| Capital Assets: | | | | |
| Land | 35 | - | - | - |
| Buildings/improvements | 158 | - | - | - |
| Equipment | 148 | - | - | - |
| Accumulated depreciation | (205) | - | - | - |
| Intangible assets | 337 | - | - | - |
| Total capital assets | 473 | - | - | - |
| Other assets | 7 | 22,490 | - | 12,216 |
| Total assets | 7,426,439 | 290,618 | 372,520 | 37,825 |
| **LIABILITIES** | | | | |
| Accounts payable | 902 | 11 | 112 | 659 |
| Due to other PERB plans | 294 | - | - | - |
| Deferred revenue | 120 | - | - | - |
| Amounts held in custody for others | - | - | - | 37,155 |
| Securities lending liability (Note 3) | 426,940 | 843 | 13,817 | 11 |
| Compensated absences payable | 448 | - | - | - |
| OPEB implicit rate subsidy | 419 | - | - | - |
| Total liabilities | 429,123 | 854 | 13,929 | 37,825 |
| **NET ASSETS** | | | | |
| Held in trust for pension benefits and other purposes | $ 6,997,316 | $ 289,764 | $ 358,591 | $ - |

*The notes to the financial statements are an integral part of this statement.*

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**
**FIDUCIARY FUNDS**
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
*(amounts expressed in thousands)*

| | PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS | PRIVATE-PURPOSE TRUST FUNDS | INVESTMENT TRUSTS |
|---|---|---|---|
| **ADDITIONS** | | | |
| Contributions/premiums: | | | |
| Employer | $ 185,537 | $ - | $ - |
| Employee | 186,129 | - | - |
| Other contributions | 41,747 | 35,755 | 771,727 |
| Net investment earnings: | | | |
| Investment earnings | 849,684 | 15,699 | 1,100 |
| Administrative investment expense | (40,721) | - | (123) |
| Securities lending income | 3,297 | 10 | 168 |
| Securities lending expense | (920) | - | (57) |
| Charges for services | 498 | - | - |
| Other additions | 388 | 4,854 | 76 |
| Total additions | 1,225,639 | 56,318 | 772,891 |
| **DEDUCTIONS** | | | |
| Benefits | 501,651 | - | - |
| Refunds | 18,770 | - | - |
| Distributions | - | 34,936 | 839,596 |
| Administrative expenses: | | | |
| Personal services | 3,137 | - | - |
| Contractual services | 2,790 | 1,899 | - |
| Supplies/materials | 133 | - | - |
| Depreciation | 9 | - | - |
| Amortization | 229 | - | - |
| Utilities/rent | 297 | - | - |
| Communications | 186 | - | - |
| Travel | 63 | - | - |
| Repair/maintenance | 40 | - | - |
| Grants | - | - | - |
| Other operating expenses | 613 | - | 25 |
| Local assistance | 17 | - | - |
| Transfers to ORP | 175 | - | - |
| Transfers to PERS-DCRP | 860 | - | - |
| Transfer Out | - | - | - |
| Total deductions | 528,970 | 36,835 | 839,621 |
| Change in net assets | 696,669 | 19,483 | (66,730) |
| Net assets - July 1 - as previously reported | 6,303,481 | 270,281 | 425,321 |
| Prior period adjustments (Note 2) | (2,834) | - | - |
| Net assets - July 1 - as restated | 6,300,647 | 270,281 | 425,321 |
| Net assets - June 30 | $ 6,997,316 | $ 289,764 | $ 358,591 |

*The notes to the financial statements are an integral party of this statement.*

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# COMPONENT UNIT FINANCIAL STATEMENTS

## Housing Authority
This authority facilitates the availability of decent, safe, and sanitary housing to persons and families of lower income. The board issues negotiable notes and bonds to fulfill its purposes.

## Facility Finance Authority
This authority assists all eligible, non-profit Montana health care and other community-based service providers to obtain and maintain access to the broadest range of low-cost capital financing possible.

## Montana State Fund (New and Old Fund)
This entity provides workers compensation insurance. Though reported in separate columns, The Montana State Fund (New Fund) and the State of Montana (Old Fund) are one legally separate entity, thus a single component unit with separate accounting funds. The New Fund covers claims incurred after June 30, 1990, and is financed by member (employer) premiums. The Old Fund covers claims incurred before July 1, 1990.

## Montana Surplus Lines
Montana Surplus Lines Agents' Association was a legally separate entity appointed as an advisory organization by the Montana Insurance Commissioner, and primarily performed services as directed by the Commissioner. The Association operated the Montana Surplus Lines Agents' Association Stamping Office. The Association, on behalf of the Commissioner, processed surplus lines transactions, collected applicable stamping fees, and sent tax statements to surplus lines agents who filed surplus lines transactions with the stamping office. Surplus lines insurance companies provide specialized insurance coverage, of an unusual or high risk nature, that is not provided by other insurance companies. On July 1, 2009, the Commissioner terminated the contract with MSLAA and the function was brought in-house.

## Montana State University and University of Montana
These universities are funded through state appropriations, tuition, federal grants, and private donations and grants. In addition to instruction, these universities provide research and other services.

**COMBINING STATEMENT OF NET ASSETS**
**COMPONENT UNITS**
JUNE 30, 2010
*(amounts expressed in thousands)*

| | HOUSING AUTHORITY | FACILITY FINANCE AUTHORITY | MONTANA STATE FUND (NEW FUND) |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets: | | | |
| Cash/cash equivalents (Note 3) | $ 159,578 | $ 2,136 | $ 28,149 |
| Receivables (net) | 19,851 | 278 | 63,970 |
| Due from primary government | - | - | - |
| Due from other governments | 1,827 | - | - |
| Due from component units | - | - | - |
| Inventories | - | - | - |
| Long-term loans/notes receivable | 723,967 | 1,252 | - |
| Equity in pooled investments (Note 3) | - | - | - |
| Investments (Note 3) | 135,752 | 137 | 1,102,416 |
| Securities lending collateral (Note 3) | 14 | 87 | 167,515 |
| Deferred charges | 6,527 | - | - |
| Other assets | 237 | 2 | 62,626 |
| Capital assets (net) (Note 5) | 9 | - | 37,719 |
| Total assets | 1,047,762 | 3,892 | 1,462,395 |
| **LIABILITIES** | | | |
| Current liabilities: | | | |
| Accounts payable | 6,016 | 11 | 19,573 |
| Due to primary government | - | - | 17 |
| Due to component units | - | - | - |
| Due to other governments | - | - | - |
| Advances from primary government | - | - | - |
| Deferred revenue | - | - | 47,054 |
| Amounts held in custody for others | - | - | 3,245 |
| Securities lending liability (Note 3) | 14 | 87 | 167,515 |
| Other liabilities | - | - | - |
| Long-term liabilities (Note 11): | | | |
| Due within one year | 162,623 | 21 | 114,476 |
| Due in more than one year | 721,741 | 10 | 791,076 |
| OPEB implicit rate subsidy (Note 7) | 165 | 13 | 2,562 |
| Total liabilities | 890,559 | 142 | 1,145,518 |
| **NET ASSETS** | | | |
| Invested in capital assets, net of related debt | 9 | - | 37,719 |
| Restricted for: | | | |
| Funds held as permanent investments: | | | |
| Nonexpendable | - | - | - |
| Housing authority | 157,194 | - | - |
| Other purposes | - | - | - |
| Unrestricted | - | 3,750 | 279,158 |
| Total net assets | $ 157,203 | $ 3,750 | $ 316,877 |

*The notes to the financial statements are an integral part of this statement.*

| MONTANA STATE FUND (OLD FUND) | MONTANA SURPLUS LINES | MONTANA STATE UNIVERSITY | UNIVERSITY OF MONTANA | TOTAL |
|---|---|---|---|---|
| $ 6,107 | $ - | $ 143,521 | $ 55,802 | $ 395,293 |
| 72 | - | 17,605 | 18,567 | 120,343 |
| - | - | 562 | 1,776 | 2,338 |
| - | - | 12,315 | 9,735 | 23,877 |
| - | - | 10 | 512 | 522 |
| - | - | 3,233 | 1,798 | 5,031 |
| - | - | 21,947 | 9,862 | 757,028 |
| - | - | 15,332 | 16,431 | 31,763 |
| 4,167 | - | 147,683 | 186,205 | 1,576,360 |
| 1,336 | - | 4,064 | 2,559 | 175,575 |
| - | - | 915 | 1,819 | 9,261 |
| - | - | 7,396 | 4,899 | 75,160 |
| - | - | 359,985 | 349,279 | 746,992 |
| 11,682 | - | 734,568 | 659,244 | 3,919,543 |
| | | | | |
| 409 | - | 31,958 | 23,048 | 81,015 |
| 110 | - | 1,083 | 659 | 1,869 |
| - | - | 512 | 10 | 522 |
| - | - | - | 146 | 146 |
| - | - | 10,451 | 6,370 | 16,821 |
| - | - | 10,425 | 15,568 | 73,047 |
| - | - | 6,069 | 2,058 | 11,372 |
| 1,336 | - | 4,064 | 2,559 | 175,575 |
| - | - | 5,825 | 5,089 | 10,914 |
| | | | | |
| 9,842 | - | 18,432 | 15,477 | 320,871 |
| 48,152 | - | 151,092 | 148,385 | 1,860,456 |
| - | - | 28,997 | 23,946 | 55,683 |
| 59,849 | - | 268,908 | 243,315 | 2,608,291 |
| | | | | |
| - | - | 238,252 | 214,307 | 490,287 |
| | | | | |
| - | - | 105,791 | 133,319 | 239,110 |
| - | - | - | - | 157,194 |
| - | - | 53,327 | 48,390 | 101,717 |
| (48,167) | - | 68,290 | 19,913 | 322,944 |
| $ (48,167) | $ - | $ 465,660 | $ 415,929 | $ 1,311,252 |

**COMBINING STATEMENT OF ACTIVITIES**
**COMPONENT UNITS**
JUNE 30, 2010
*(amounts expressed in thousands)*

| | HOUSING AUTHORITY | FACILITY FINANCE AUTHORITY | MONTANA STATE FUND (NEW FUND) |
|---|---|---|---|
| **EXPENSES** | $ 60,603 | $ 417 | $ 191,796 |
| **PROGRAM REVENUES:** | | | |
| Charges for services | 408 | 613 | 166,265 |
| Operating grants and contributions | 61,807 | 76 | - |
| Capital grants and contributions | - | - | - |
| Total program revenues | 62,215 | 689 | 166,265 |
| Net (expenses) program revenues | 1,612 | 272 | (25,531) |
| **GENERAL REVENUES:** | | | |
| Unrestricted grants and contributions | - | - | - |
| Unrestricted investment earnings | - | - | 121,469 |
| Payment from State of Montana | - | - | - |
| Gain (loss) on sale of capital assets | - | - | (115) |
| Miscellaneous | 104 | - | 63 |
| Contributions to term and permanent endowments | - | - | - |
| Total general revenues and contributions | 104 | - | 121,417 |
| Change in net assets | 1,716 | 272 | 95,886 |
| Total net assets- July 1 - as previously reported | 155,376 | 3,478 | 217,622 |
| Prior period adjustments (Note 2) | 111 | - | 3,369 |
| Total net assets - July 1 - restated | 155,487 | 3,478 | 220,991 |
| Total net assets - June 30 | 157,203 | 3,750 | 316,877 |

*The notes to the financial statements are an integral part of this statement.*

| MONTANA STATE FUND (OLD FUND) | MONTANA SURPLUS LINES | MONTANA STATE UNIVERSITY | UNIVERSITY OF MONTANA | TOTAL |
|---|---|---|---|---|
| $ 2,899 | $ 440 | $ 461,578 | $ 388,812 | $ 1,106,545 |
| | | | | |
| - | - | 184,790 | 174,859 | 526,935 |
| - | - | 175,425 | 123,691 | 360,999 |
| - | - | 17,312 | 17,025 | 34,337 |
| - | - | 377,527 | 315,575 | 922,271 |
| (2,899) | (440) | (84,051) | (73,237) | (184,274) |
| | | | | |
| - | - | 567 | - | 567 |
| 227 | - | 5,259 | 18,215 | 145,170 |
| - | - | 108,936 | 84,382 | 193,318 |
| - | - | 89 | (99) | (125) |
| - | - | - | - | 167 |
| - | - | 3,195 | 3,791 | 6,986 |
| 227 | - | 118,046 | 106,289 | 346,083 |
| (2,672) | (440) | 33,995 | 33,052 | 161,809 |
| (45,495) | 440 | 425,464 | 382,877 | 1,139,762 |
| - | - | 6,201 | - | 9,681 |
| (45,495) | 440 | 431,665 | 382,877 | 1,149,443 |
| (48,167) | - | 465,660 | 415,929 | 1,311,252 |

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements for the State of Montana have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

### A. Reporting Entity

For financial reporting purposes, the State of Montana has included all funds which comprise the State of Montana (the primary government) and its component units. The component units are entities for which the State is financially accountable, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

**Discretely Presented Component Units**
These component units are entities that are legally separate from the State because they possess corporate powers, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Complete financial statements of the individual component units, which issue separate financial statements, can be obtained from their respective administrative offices. The component unit columns of the combined financial statements include the financial data of the following entities.

Housing Authority – This authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor. It was created in 1975 to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income. The board issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed $1.5 billion. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The authority is audited annually by the State’s Legislative Audit Division. The report is issued under separate cover and available at 301 South Park, Room 240, PO Box 200528, Helena, MT 59620-0528.

Facilities Finance Authority – This authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. The authority assists all eligible, non-profit Montana health care and other community-based service providers to obtain and maintain access to the broadest range of low-cost capital financing as possible. The board issues revenue bonds to fulfill its purposes. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. Individual audit reports are issued every two years by the State’s Legislative Audit Division. The report is issued under separate cover and available at 2401 Colonial Drive, 3rd Floor, PO Box 200506, Helena, MT 59620-0506.

Montana State Fund (New Fund and Old Fund) - Though reported in separate columns, The Montana State Fund (New Fund) and the State of Montana (Old Fund) are one legally separate entity, thus a single component unit with separate accounting funds. Both New Fund and Old Fund are a nonprofit, independent public corporation governed by a board of directors appointed by the Governor.

Montana State Fund - New Fund – New Fund provides workers compensation insurance for claims incurred after June 30, 1990, and is financed by member (employer) premiums. The New Fund is audited annually by the State’s Legislative Audit Division. The report is issued under separate cover and available at 855 Front Street, Helena, MT 59604.

State of Montana – Old Fund – Old Fund covers worker compensation claims that were incurred before July 1, 1990. Administrative operations and budgets may be reviewed by the Governor and the Legislature, but they have

no authority over budgets or costs. The Old Fund is audited annually by the State's Legislative Audit Division. The report is issued under separate cover and available at 855 Front Street, Helena, MT 59604.

Universities and Colleges – The State Board of Regents has responsibility for the following institutions: The University of Montana - Missoula and the units under it including Montana Tech of the University of Montana, The University of Montana - Western and The University of Montana - Helena College of Technology; and Montana State University - Bozeman and the units under it including Montana State University - Billings, Montana State University - Northern, and the Montana State University College of Technology - Great Falls. All units are funded through state appropriations, tuition, federal grants, and private donations and grants. The universities are audited annually by the State's Legislative Audit Division. The reports are issued under separate cover and are available at the President's Office on each of the campuses or by contacting the Commissioner of Higher Education, 2500 Broadway Street, Helena, MT 59620-3201.

Though the following organizations perform functions related to the higher education units, they are not considered part of Montana's reporting entity: (1) Community Colleges which are considered part of local units of government; (2) the Montana Higher Education Student Assistance Corporation, a private non-profit corporation; and (3) the Student Assistance Foundation of Montana, a private non-profit corporation. Entities such as local school districts and local authorities of various kinds are considered part of local units of government and have not been included. The State and Federal support of local public education systems is reported in the General Fund, the State Special Revenue Fund and Federal Special Revenue Fund (for ARRA funds in FY10 and FY11).

Montana Surplus Lines – Montana Surplus Lines Agents' Association was a legally separate entity appointed as an advisory organization by the Montana Insurance Commissioner, and primarily performed services as directed by the Commissioner. The Association operated the Montana Surplus Lines Agents' Association Stamping Office. The Association, on behalf of the Commissioner, processed surplus lines transactions, collected applicable stamping fees, and sent tax statements to surplus lines agents who filed surplus lines transactions with the stamping office. Surplus lines insurance companies provide specialized insurance coverage, of an unusual or high risk nature, that is not provided by other insurance companies. On July 1, 2009, the Commissioner terminated the contract with MSLAA and the function was brought in-house.

**Fiduciary Fund Component Units**

Teachers Retirement System (Pension Trust Fund) – This retirement plan is a legally separate entity with a board appointed by the Governor. Its purpose is to provide retirement, disability, death and lump-sum payments to members of Montana's public teaching profession. The administrative costs of the Teachers Retirement System are paid from investment earnings of the fund. The plan is funded from employer and employee contributions and investment earnings. The board is a discretely presented component unit. The plan is audited annually by the State's Legislative Audit Division. Its report is issued under separate cover and is available at 1500 East Sixth Avenue, PO Box 200139, Helena, MT 59620-0139.

Public Employees' Retirement Board (Pension and Other Employee Benefit Trust Funds) – The board is appointed by the Governor and administers ten separate retirement plans for the purpose of providing retirement, disability, death, and lump-sum payments to plan members. These legally separate plans include the Public Employees' Retirement Plan – Defined Benefit and Defined Contribution and the associated education funds; the Judges'; the Highway Patrol Officers'; the Sheriffs'; the Game Wardens' and Peace Officers'; the Municipal Police Officers'; and the Firefighters' Unified Retirement Systems; as well as the Volunteer Firefighters' Compensation Act. The board also administers the State of Montana Deferred Compensation Program.

The Public Employees' Retirement System (PERS) includes the Public Employees' Defined Benefit Retirement Plan and the Public Employees' Defined Contribution Retirement Plan, and is funded by member and employer contributions, investment earnings and contributions from the state. The PERS also accounts for the administrative costs, paid from investment earnings, of the plan. These are allocated out to all plans. The Judges' Retirement System is funded by member and state employer contributions, and investment earnings. The Highway Patrol Officers' Retirement System is funded by member and state employer contributions, state contributions, and investment earnings. The Sheriffs' Retirement System is funded by member and employer contributions, and investment earnings. The Game Wardens' and Peace Offices' Retirement System is funded by member and employer contributions, and investment earnings. The Municipal Police Officers' Retirement System is funded by

member and employer contributions, state contributions, and investment earnings. The Firefighters' Unified Retirement System is funded by employee and employer contributions, and investment earnings, as well as state contributions from a portion of insurance premium taxes collected by the State of Montana. The Volunteer Firefighters' Compensation Act is funded by the state contributions of a percentage of fire insurance premium taxes collected. The State of Montana Deferred Compensation Program is funded by member contributions and investment earnings; there are two employers, Great Falls Transit and the town of Whitehall, that contribute to the program on behalf of their employees.

The board is a discretely presented component unit responsible for the ten separate public employee retirement plans including the Deferred Compensation Program. These are reported as pension and other employee benefit trust funds. The board is audited annually by the State's Legislative Audit Division. Its report is issued under separate cover and is available at 100 North Park, Suite 200, PO Box 200131, Helena, MT 59620-0131.

### B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the State of Montana and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the State of Montana is reported separately from certain legally separate component units for which the State is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Certain indirect costs are included in the program expense reported for the individual functions and activities. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues.

Separate fund financial statements are provided for governmental, proprietary, and fiduciary funds. Fiduciary fund statements are reported only in the fund financial statements. Major individual governmental and major individual enterprise funds are reported as separate columns in the fund financial statements.

### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

**Government-wide, Proprietary, and Fiduciary Fund Financial Statements**

The government-wide, proprietary fund, and fiduciary fund (except for agency fund) financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are reported when earned; expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all of the eligibility requirements imposed by the provider are met. Agency funds have no measurement focus. These funds report only assets and liabilities, recognizing receivables and payables using the accrual basis of accounting.

**Governmental Fund Financial Statements**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are realizable, measurable, earned, and available. Revenue is considered realizable when it is probable the amount will be collected. Revenue is considered measurable and realizable if the precise amount is known because the transaction is completed, or if there is enough information to provide a reasonable estimate of the net realizable revenue to be received. Revenue is considered to have been earned when the exchange of goods or services has taken place. Revenue is considered to be available if it is collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. For this purpose, the State considers revenue to be available if it is collected within 60 days of the end of the

current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

The major revenue sources considered susceptible to accrual are licenses and permits, natural resource taxes, individual income taxes, corporate income taxes, property taxes, fuel taxes, and certain federal revenues (reimbursable grants and U.S. mineral royalties). All other revenue is considered to be measurable and available when the cash is received.

**Fund Financial Statements**
The State uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The financial activities of the State of Montana are classified into fund categories as described below:

**Governmental Funds**
<u>General Fund</u> – To account for all governmental financial resources, except those required to be accounted for in another fund.

<u>Special Revenue Funds</u> – To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes other than major capital projects.

<u>Debt Service Funds</u> – To account for resources accumulated for payment of principal and interest on general long-term obligation debt.

<u>Capital Projects Funds</u> – To account for resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary or trust funds.

<u>Permanent Funds</u> – To account for resources that are permanently restricted to the extent those only earnings, not principal, may be used for the purposes of supporting the government's programs.

**Proprietary Funds**
<u>Enterprise Funds</u> – To account for operations (1) financed and operated similar to private business enterprises, where the intent of the Legislature is to finance or recover costs primarily through user charges; (2) where the Legislature has decided periodic determination of revenue earned, expenses incurred, or net income is appropriate; (3) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; (4) when laws or regulations require that the activities' costs of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The primary focus of fee revenues charged by enterprise funds is users outside of the primary government.

<u>Internal Service Funds</u> – To account for the financing of goods and services provided by one department or agency to other departments, agencies, or other governmental entities on a cost-reimbursement basis.

The State of Montana reports two employee group benefits funds. The MUS Group Insurance Fund primarily charges its fees to Montana State University and the University of Montana. The universities are reported as discretely presented component units, which the State considers to be external users, and as such, reports the MUS Group Insurance Fund as an enterprise fund. The Employee Group Benefits Fund charges its fees to funds of the primary government, and as such, is reported as an internal service fund.

**Fiduciary Funds**
To account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, or other governments. These assets cannot be used to support the government's own programs.

Pension (and Other Employee Benefit) Trust Funds – These funds report resources that are required to be held in trust for the members and beneficiaries of the State's defined benefit plans, defined contribution plans, other retirement plans such as firefighters, police officers, teachers etc., and other post employment benefit plans. Plan members receive retirement, disability, death, and lump-sum payments from the fund. For detail on the individual plans, see Note 6.

Private-Purpose Trust Funds – These funds are used to account for assets held by the State in a trustee capacity, where both the principal and earnings benefit individuals, private organizations, or other governments. Examples include the State's escheated property fund, unliquidated security bonds held on deposit from self-insured employers, environmental reclamation bonds held in trust, and others.

Investment Trust Fund – This fund accounts for the receipt of monies by the Montana Board of Investments for investment in the Short-term Investment Pool (STIP), an external investment pool, and the distribution of related investment earnings to local government agencies.

Agency Funds – Account for assets held by the State as an agent for individuals, private organizations, and other governments. For example, various agencies including State Auditor, Fish, Wildlife and Parks, and the Department of Natural Resources and Conservation hold deposits pending compliance with performance agreements. Other examples include monies belonging to state institution residents and child support payments from parents.

**Major Governmental Funds**
The General Fund is the State's primary operating fund, as previously defined.

The State Special Revenue Fund accounts for activities funded from state sources, which are restricted either legally or administratively for particular costs of an agency, program, or function.

The Federal Special Revenue Fund accounts for activities funded from federal sources used in the operation of state government.

The Coal Tax Trust Permanent Fund, created by Article IX, Section 5 of the Montana State Constitution, receives 50% of all coal tax collections. The principal in this fund can be expended only upon affirmative vote of three-fourths of each house of the Legislature.

The Land Grant Permanent Fund accounts for lands granted to the State for support of public schools and state institutions.

**Major Enterprise Funds**
The Unemployment Insurance Fund accounts for employer contributions deposited with the Secretary of the Treasury of the United States to the credit of the State's unemployment trust fund. Unemployment benefits are paid from this fund to eligible recipients.

The Economic Development Bonds Fund accounts for the Economic Development Bond Act programs and the Municipal Finance Consolidation Act programs. These programs assist Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.
Private sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed by both the government-wide and proprietary fund financial statements to the extent they do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds. The State has elected not to follow subsequent private sector guidance.

As a general rule, material interfund revenues have been eliminated from the government-wide financial statements. These have not been eliminated where their elimination would distort the direct costs and program revenues of the functions involved.

The State does not allocate indirect expenses to functions in the Statement of Activities.

### D. Proprietary Activity Accounting and Financial Reporting

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating.

### E. Cash/Cash Equivalents

For all funds, cash and cash equivalents consist of amounts deposited in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool (STIP), cash held by trustees, undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. For 2010, certain investments in STIP were reclassified as long-term investments. (See Note 3 Cash/Cash Equivalents).

### F. Receivables

This classification, net of estimated uncollectibles, consists primarily of receivables for goods sold and services provided; short-term loans and notes; interest and dividends; taxes due within 60 days of fiscal year-end; and income, withholding, and inheritance taxes that are past due. An allowance for uncollectible taxes is provided based upon historical analysis. Further detail relating to receivables is provided in Note 4.

Pledged receivables are disclosed in Note 2C.

### G. Inventories

Inventories of materials and supplies are stated at cost. The State allows agencies to use any generally accepted inventory pricing method, but specifies the first-in, first-out method should be appropriate for most agencies.

Governmental funds use the "purchase method," meaning inventory purchases are recorded as expenditures. At fiscal year-end, significant amounts of inventory are shown as a reservation of fund balance, indicating they do not constitute available expendable resources.

Proprietary and fiduciary funds report using the "consumption method," meaning inventories are expensed as used.

### H. Restricted Assets

Certain investments of the Economic Development Bonds Enterprise Fund are classified as restricted assets on the Statement of Net Assets for Proprietary Funds because their use is limited by applicable bond indenture agreements.

### I. Equity in Pooled Investments

The Montana Board of Investments manages the State's Unified Investment Program, which includes several internal investment pools. Participation in the pools is restricted to permanent funds, private-purpose trust funds, investment trust funds, pension trust funds, Montana University System Units, and specific funds established within the State Special Revenue Fund. The participant investments in the pools are reported at fair value in the assets within the individual funds (See Note 3 on Cash/Cash Equivalents and Investments).

### J. Investments

In accordance with the Montana Constitution and the statutorily mandated "Prudent Expert Rule," the State of Montana invests in various types of securities for each portfolio it manages. Certain securities including asset-backed securities, variable-rate instruments, zero-coupon bonds, preferred stocks, and mortgage-backed securities are purchased for portfolio diversification and a competitive rate of return. Most investments are reported at fair value in the Balance Sheet or Statement of Net Assets. Investments are reported by type in the disclosure of custodial credit risk for each investment portfolio (See Note 3 on Cash/Cash Equivalents and Investments).

### K. Capital Assets

Capital asset valuation is based on actual historical cost or, in the case of donations, fair market value on the date donated. General government infrastructure capital assets are capitalized and reported in the government-wide financial statements. Infrastructure assets of proprietary funds are capitalized on the fund financial statements. Interest incurred during the construction of capital assets for proprietary funds and higher education units is capitalized. The State has chosen to use the depreciation approach for infrastructure assets and is reporting accumulated depreciation in the Statement of Net Assets and depreciation expense in the Statement of Activities for these assets.

Capital assets in proprietary, private-purpose trust, and pension trust funds are accounted for within their respective funds and are depreciated. Depreciation is on a straight-line basis with estimated useful lives of 25 to 60 years for buildings, 7 to 20 years for building improvements, 3 to 10 years for equipment, and 10 to 50 years for infrastructure. State agencies are also required to extend or shorten the useful lives of capital assets to reflect their actual experience or industry standards when appropriate.

The capitalization limit for buildings and building/land improvements is $25,000. The capitalization threshold for infrastructure is $500,000. Agencies are allowed to capitalize additions to collections and land acquisitions at any cost. The capitalization limit for other capital assets is set at $5,000. Purchases under these thresholds are recorded as expenditures/expenses in the current period.

### L. Deferred Revenue

Deferred revenue in the government-wide, proprietary fund and fiduciary fund financial statements relates to unearned revenue. A liability for unearned revenue is recorded when assets are recognized in connection with a transaction prior to the earnings process being completed.

Deferred revenue in the governmental fund financial statements relates to both unearned revenue (as discussed above) and unavailable revenue. A liability for unavailable revenue is recorded when assets are recognized in connection with a transaction, but those assets are not considered available to finance expenditures of the current fiscal period.

### M. Long-term Obligations

Long-term obligations expected to be financed from governmental funds are reported in the government-wide financial statements. Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from current expendable available financial resources is reported as a fund liability of a governmental fund in the fund financial statements. The remaining portion of such obligations is reported in the government-wide financial statements.

Long-term liabilities expected to be financed from proprietary and fiduciary fund operations are accounted for in those funds.

## N. Capital Leases

A capital lease is generally defined by Financial Accounting Standards Board (FASB) Statement No. 13, Accounting for Leases, as one which transfers benefits and risks of ownership to the lessee. At the inception of a capital lease, in the government-wide, proprietary fund, and fiduciary fund financial statements, a capital asset and a capital lease liability are recorded at the present value of the future minimum lease payments. In the governmental fund financial statements, because the modified accrual basis of accounting is used, no asset or liability is recorded related to assets under capital leases. Rather, in the governmental fund financial statements, at the inception of a capital lease, capital outlay expenditure and a other financing source (inception of lease/installment contract) are recorded at the net present value of the minimum lease payments.

## O. Bond Discounts/Premiums/Issuance Costs

Bond premiums and discounts, as well as issuance costs, are recognized in the current period for governmental funds in the fund financial statements. Bond proceeds and bond premiums are reported as an other financing source, and bond discounts are reported as an other financing use. Issuance costs are reported as debt service expenditures whether or not they are withheld from the bond proceeds. In proprietary fund types and in governmental funds as presented in the government-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds, which approximates the effective interest method. Bonds payable are recorded net of any applicable premium or discount, while issuance costs are reported as deferred charges.

## P. Compensated Absences

Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 80 hours of sick or annual leave to a nonrefundable sick leave pool. Excess annual leave that is being forfeited can also be contributed, with no maximum contribution. Based on a review, the adjusted ending balance of the pool for June 30, 2009, was 7001 hours. For fiscal year 2010, 1805 sick leave hours, 523 annual leave hours, and 7327 excess annual leave hours were contributed to the sick leave pool, and 250 hours were withdrawn, leaving a balance of 16,406 hours in the pool. No liability is reported in the accompanying financial statements because these hours are nonrefundable to contributors, except by grants approved through an application process.

Vested or accumulated leave for proprietary and fiduciary funds is recorded as an expense and liability of those funds in the fund financial statements. For governmental funds, the liability is not expected to be liquidated with expendable financial resources. The expenditure and liability for the governmental funds is reported only in the government-wide financial statements. Upon retirement or termination, an employee is paid for 100% of unused vacation leave and 25% of unused sick leave.

## Q. Fund Balance/Net Assets

### Fund Balance

As discussed in further detail in footnote 2, the State of Montana early implemented Governmental Accounting Standards Board (GASB) Statement No. 54. As a result, the classifications for fund balance now used for governmental funds are reported in two general classifications, nonspendable and spendable.

Nonspendable represents the portion of fund balance that is not in spendable form such as inventories, and, in the general fund, long term notes and loans receivable. Spendable fund balance is further categorized as restricted, committed, assigned, and unassigned.

The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by the State constitution and external parties, such as the federal government, or through enabling legislation. For the purpose of determining restricted amounts, enabling legislation does not include commitments resulting from state legislation because these can be removed or changed by the same type of action.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority, the state's legislature, through legislation passed into law.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. Assignments of fund balance are created by the executive branch. An example of an assignment is money deposited into an account within the State Special Revenue fund by the executive branch and later appropriated by the legislature. The revenue source is not restricted or committed by legislation but is assigned by executive branch management and later appropriated by the legislature for a specific purpose. In governmental funds other than the general fund, assigned fund balance also represents the remaining amount that is not restricted or committed. Also included in the assigned fund balance for the general fund are assignments for the portion of current general fund balance that is projected to be used to fund expenditures and other cash outflows in excess of the expected revenues and other cash inflows in fiscal year 2011, and encumbrances.

Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The State of Montana generally segregates restricted, committed, and assigned resources by account (sub-fund) within the governmental funds, other than the general fund. When resources meeting more than once of these spendable classifications are comingled in an account on the state's accounting system the assumed order of spending is restricted first, committed second, and finally assigned. State statute requires non-general fund money be spent first whenever possible so any related available unassigned balance would be spent last.

**Minimum General Fund - Fund Balance**
The state does not maintain a stabilization fund. However, statute provides a minimum fund balance amount as follows: § 17-7-140, MCA, defines minimum ending fund balance (i.e. "deficit" or 1% of expenditures) and specifies the procedures that must be followed to make expenditure reductions if a projected ending fund balance drops below minimum statutory requirements.

The law requires; if the Budget Director determines that a deficit exists, reductions <u>must</u> be made to assure that the projected ending fund balance is at least 1% of general fund appropriations for the biennium. Under circumstances when a deficit is projected during a biennium, the Governor may direct reductions from any general fund expenditure not exempted by § 17-7-140, MCA, including HB 2 (the State's main appropriation bill), any other appropriation bills, statutory appropriations, or language appropriations. Reductions may not exceed 10% of general fund appropriations for any single "program," as defined in HB 2. If a program has more than one appropriation, the reduction for one or more of the appropriations may exceed 10% as long as the reduction for the program as a whole does not exceed 10%.

The Legislative and Judicial branches, the Montana School for the Deaf and Blind, principal and interest on state debt, salaries of elected officials, and public school BASE funding are exempt, statutorily, from reductions. These exemptions shield approximately 35% of general fund appropriations from reduction. Of the remaining expenditures, the Governor may not direct executive agencies headed by elected officials or the Board of Regents to reduce their expenditures by more than the average reduction percentage imposed upon all other executive branch agencies.

**Net Assets**
In funds other than governmental, net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by

the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide Statement of Net Assets reported restricted net assets (in thousands) of $2,142,540, of which $410,398 is restricted by enabling legislation, which only includes legislation that becomes a constitutional restriction.

## R. Property Taxes

Real property taxes are levied in October and are payable in two installments on November 30 and May 31. These taxes attach as an enforceable lien immediately if not paid when due.

Personal property tax levies are set each August, and notices are normally mailed the following March or April. Half of mobile home taxes are due in 30 days and the remaining half on September 30. Taxes on all other types of personal property are to be paid in full 30 days after receipt of the notice.

Personal property taxes attach as an enforceable lien immediately if not paid when due. Property taxes are collected by each of Montana's 56 counties. The counties then remit the State's portion to the State Treasury. The majority of these taxes help fund public school systems and higher education.

## S. Other Taxes

On the Statement of Activities, the revenue category “Other Taxes” consists of the following taxes (in thousands):

| | General Fund | State Special Revenue Fund | Other Governmental Funds | Business Type | Total |
|---|---|---|---|---|---|
| Accommodations | $ 13,402 | $ 17,323 | $ - | $ - | $ 30,725 |
| Agriculture sales | - | 5,391 | - | - | 5,391 |
| Cigarette/tobacco | 37,329 | 48,593 | 1,897 | - | 87,819 |
| Fire protection | - | 3,297 | - | - | 3,297 |
| Insurance premium | 52,364 | 9,444 | - | - | 61,808 |
| Liquor tax | 4,982 | 1,931 | - | 25,007 | 31,920 |
| Livestock | - | 3,588 | - | - | 3,588 |
| Other taxes | 22,188 | 4,182 | - | 10 | 26,380 |
| Public Service Commission | - | 2,361 | - | - | 2,361 |
| Telephone license | 23,175 | - | - | - | 23,175 |
| Video gaming | 52,403 | 9 | - | - | 52,412 |
| Total other taxes | $ 205,843 | $ 96,119 | $ 1,897 | $ 25,017 | $ 328,876 |

## NOTE 2. OTHER ACCOUNTING ISSUES

### A. New Accounting Guidance Implemented

For the year ended June 30, 2010, the State of Montana implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 51 – "Accounting and Financial Reporting for Intangible Assets". The objective of Statement No. 51 is to establish accounting and financial reporting requirements for intangible assets that enhance the comparability of the accounting and financial reporting of such assets among state and local governments. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This statement also gives guidance on recognition issues such as what it is to be considered identifiable and establishes a specified-conditions approach to recognizing intangible assets that are internally generated.

For the year ended June 30, 2010, the State of Montana implemented the provisions of GASB Statement No. 53 – "Accounting and Financial reporting for Derivative Instruments". The guidance in Statement No. 53 improves financial reporting by requiring governments to measure derivative instruments, with the exception of synthetic guaranteed investment contracts (SGICs) that are fully responsive, at fair value in their economic resources measurement focus financial statements. These improvements should allow users of those financial statements to more fully understand a government's resources available to provide services. The application of interperiod equity means that changes in fair value are recognized in the reporting period to which they relate. The changes in fair value of hedging derivatives instruments do not affect investment revenue but are reported as deferrals. The changes in fair value of investment derivative (which include ineffective hedging derivative instruments) are reported as part of investment revenue in the current reporting period. The disclosures provide a summary of the government's derivative instrument activity and the information necessary to assess the government's objectives for derivative instruments, there significant terms, and the risks associated with the derivative instruments. Disclosures pertaining to derivative instruments for the University of Montana and the Montana State University may be found in their respective comprehensive financial reports.

For the year ended June 30, 2010, the State of Montana early implemented the provisions of GASB Statement No. 54 - "Fund Balance Reporting and Governmental Fund Type Definitions". The objective of Statement No. 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources reported in governmental funds. The clarifications of the governmental fund type definitions should reduce uncertainty about which resources can or should be reported in the respective fund types. These new classifications include nonspendable and spendable, which is further reported as restricted, committed, assigned and unassigned. The new fund balance classifications and the minimum fund balance disclosure provided in Statement 54 are discussed in detail in footnote 1, section Q. Statement 54 requires the disclosure of the purpose of every major special revenue fund in the financial statement notes. This additional disclosure is provided in footnote 14.

### B. Prior Period Adjustments

Prior period adjustments reported in the accompanying financial statements relate to corrections of errors or changes in accounting policy from prior periods. The most significant of these adjustments affected the governmental activities column in the Statement of Activities, and related to Montana Department of Transportation infrastructure corrections. An adjustment was also made to Land Grant and Nonmajor Governmental Funds in the amount of $8,722,000 which is the amount due to reclassification of amounts from the Nonmajor Governmental Funds to Land Grant. Other significant adjustments affected the General Fund on the Statement of Revenues, Expenditures, and Changes in Fund Balances for the Governmental Funds; these related primarily to expenditure accrual adjustments. No other significant corrections were made for fiscal year 2010.

**C. Functional Classification Change**

In the fiscal year 2010 financial statements, governmental expenditures are reported in the general government, public safety/corrections, transportation, health/social services, education/cultural and resource/recreation /environment functions. With the re-examination of the reporting process resulting from the early implementation of the statement 54, the decision was made to align this reporting to more closely follow the functional classifications used in the state budgetary process. This resulted in the elimination of the previously reported economic development/assistance function with the related activity now included in the general government function.

## NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

This note details the following asset classifications (in thousands):

| | |
|---|---|
| Cash/cash equivalents | $2,643,285 |
| Equity in pooled investments | $8,190,229 |
| Investments | $2,541,694 |

Carrying amounts for the bank balance for Cash Deposits and fair values for the State's cash equivalents and investments are presented in Tables 1 through 4.

**A. General**

**(1)** Cash and cash equivalents consist of funds deposited by individual funds in the State Treasurer‘s pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool, cash held by trustees, undeposited cash held by individual state agencies, and investments categorized as cash equivalents.

Cash deposited with the State Treasurer’s pooled cash account is invested by the Montana Board of Investments (BOI) in short-term securities and other investments. Because these funds are immediately available to the individual funds, their investment in the pooled cash account is reported as a cash equivalent. In addition to the State Treasurer’s pooled cash account, there is the Short-term Investment Pool (STIP) maintained by the BOI. This investment fund provides individual state agencies and local governments an opportunity to invest excess cash in a money market fund. Because these pooled funds are invested in short-term, highly liquid investments, the individual fund investments in the STIP are reported as a cash equivalent.

Although STIP, an external investment pool, is not registered with the Securities and Exchange Commission (SEC) as an investment company, the BOI has as policy that STIP is managed in a manner consistent with the SEC Rule 2a7. As a 2a7-like pool, the STIP utilizes an amortized cost unit value to report net assets. The portfolio may include asset-backed securities, commercial paper, corporate, U.S. government direct obligations, U.S. government agency securities, repurchase agreements, institutional money market funds, certificates of deposit and variable-rate (floating-rate) instruments. Investments must have a maximum maturity of 397 days or less unless they have rate reset dates. The portfolio is carried at amortized cost or book value with a constant unit value of $1.00. State agencies that are allowed to retain their interest earnings within their funds are required to invest in STIP. Local government participation in STIP is voluntary. Separately issued external investment pool financial statements may be obtained by contacting the Montana Board of Investments, 2401 Colonial Drive, 3rd Floor, PO Box 200126, Helena, MT 59620-0126.

The State's cash equivalents and investments are detailed in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments to disclose the level of investment risk, when applicable, assumed by the State at June 30, 2010.

**(2)** All securities are reported by investment portfolio and type in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments. The State invests in certain types of securities, including U.S.

government direct-backed, U.S. government indirect-backed, corporate stock/bonds, foreign government bonds, common stock, municipals, equity index, preferred stock, convertible equity securities, asset-backed securities, American Depositary Receipts (ADRs), equity derivatives, commingled funds, venture capital, leveraged buyout, mezzanine, diversified real estate portfolio, distressed debt, special situation and secondary investments, and cash equivalents, to provide a diversified investment portfolio and an overall competitive rate of return.

U.S. government direct-backed securities include direct obligations of the U.S. Treasury and obligations explicitly guaranteed by the U.S. government. U.S. government indirect-backed obligations include U.S. government agency and mortgage-backed securities. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages.

Common stock represents ownership units (shares) of a public corporation. Common stock owners are entitled to vote on director selection and other important matters, as well as receive dividends on their holdings. Equity index investments are investments in selected mutual funds whose equity portfolios match a broad based index or composite. Preferred stock, as a class of stock, pays dividends at a specified rate and has preference in the payment of dividends and liquidation of assets. Preferred stock holders, ordinarily, do not have voting rights. Convertible securities are securities carrying the right to exchange, or "convert" the instrument for other securities of the issuer or of another issuer. This definition most often applies to preferred stocks or corporate bonds carrying the right to exchange for a fixed number of shares of the issuer's common stock. ADRs are receipts issued by a U.S. depositary bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depositary bank. Equity derivatives "derive" their value from other equity instruments such as futures and options. An institutional commingled fund combines assets from several institutional investors that are blended or pooled together, to reduce management and administration costs. The investor buys shares in the fund.

Venture capital represents private equity investments in early stage financing of rapidly growing companies with an innovative product or service. Leveraged buyouts (LBOs) permit an investment group to acquire a company by leveraging debt, as a financing technique, to establish a significant ownership position on behalf of the company's current management team. Mezzanine investments are the subordinated debt and/or equity of privately-owned companies. The debt holder participates in equity appreciation through conversion features, such as rights, warrants, and/or options. These investments are made via limited partnership agreements in which BOI and other institutional investors invest as limited partners in funds managed by a general partner. These investments are riskier with higher potential return than public equity investments, and are less liquid because the funds are usually committed for at least ten years. Because of the risk and illiquidity, these investments are limited to sophisticated investors only.

Distressed debt represents the private and public debt of companies that appear unlikely to meet their financial obligations.

Special situation investments include the investment in the exploration for oil and/or gas reserves or in the development of proven reserves, investment in land to harvest timber, and investments that have a special component usually related to geographical, economic, or social issues. Secondary investments are investments in previously owned limited partnerships. These investments may be direct or via a general partner specializing in secondary investments. Private equity investments are long-term, by design, and extremely hard to value.

Diversified real estate portfolio includes investments in core, value-added, and opportunistic real estate. Core investments are the least risky with the lowest return, and are usually managed in commingled accounts in which the investor purchases shares. Value-added and opportunistic real estate investments provide more risk. Opportunistic investments are less liquid than core investments. These investments are usually made through limited partnership agreements.

Investments are presented in the Statement of Net Assets at fair value. Fair values for investment pool securities are determined primarily by reference to market prices supplied to the BOI by BOI's custodial bank, State Street Bank. Amortized cost represents the original cost, adjusted for premium and discount amortization, where applicable. Premiums and discounts are amortized/accreted using the straight-line or scientific method to the call, average life or maturity date of the securities. Amortized cost may also be referred to as book value.

Under the provisions of state statutes, the State has, via a Securities Lending Authorization Agreement, authorized the State's agent to lend the State's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the State receives a fee and the agent must initially receive collateral equal to 102% to 105% of the fair value of the loaned securities and maintain collateral equal to not less than 100% of the fair value of the loaned security. During the fiscal year, the State's agent loaned, on behalf of the State, certain securities held by the agent and received U.S. dollar and foreign currency cash, U.S. government securities, sovereign debt rated A or better, convertible bonds, and irrevocable bank letters of credit as collateral. The State's agent does not have the ability to pledge or sell collateral securities unless the borrower defaults. The State retains all rights and risks of ownership during the loan period. At year-end, the BOI has no credit risk exposure to borrowers because the amount the BOI owes the borrowers exceeds the amount the borrowers owe the system.

## B. Cash/Cash Equivalents

**(1) Cash Deposits** – The State requires collateralization based on the average daily bank balance in the depository bank holding the main State bank account. For other depository banks, state statutes require collateralization at 50% of the bank balance. The cash deposits amount includes both primary government and component unit deposits.

**Table 1 - Cash Deposit Amounts**
*(in thousands)*

| | Carrying Amount |
|---|---|
| Cash held by State/State's agent | $157,363 |
| Uninsured and uncollateralized cash | 4,348 |
| Undeposited cash | 705 |
| Cash in U.S. Treasury | 112,993 |
| Cash in MSU component units | 6,119 |
| Cash in UM component units | 5,728 |
| Less: outstanding warrants | (50,961) |
| Total cash deposits | $236,295 |

As of June 30, 2010, the carrying amount of deposits for component units was $124,010,976, as included in Table 1.

**(2) Cash Equivalents** – consists of cash in the State Treasury invested by individual funds in the Short-term Investment Pool (STIP), the State Treasurer's pooled cash account, and in identifiable securities and investments considered to be cash equivalents. Cash equivalents, generally, are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents may be under the control of the Board of Investments or other agencies, as allowed by law.

**Table 2 - Cash Equivalents**
*(in thousands)*

| | Fair Value | Credit Quality Rating | WAM in Days |
|---|---|---|---|
| Asset Backed commercial paper | $ 368,299 | A1 | 17 |
| Corporate commercial paper | 196,596 | A1+ | 31 |
| Corporate variable | 206,328 | A2 | 35 |
| Certificate of deposit – fixed | 105,006 | A3 | 71 |
| Certificate of deposit – variable | 235,000 | A2 | 42 |
| US government agency fixed | 100,306 | A1+ | 174 |
| US government agency variable | 760,103 | A1+ | 40 |
| Money market fund unrated | 412,081 | NR | 1 |
| Money market fund rated | 10,000 | A1+ | 1 |
| Repurchase agreement (1) | 11,659 | NR | NA |
| US Government direct obligations (2) | 4,993 | AAA | NA |
| Corporate bonds (rated) (2) | 15,067 | A | NA |
| US Government agency (2) | 50,539 | AAA | NA |
| Less: STIP included in pooled investment balance | (68,987) | NR | NA |
| Total cash equivalents | $2,406,990 | | 39 |
| Securities lending collateral investment pool | $ 86,636 | NR | 20 |

(1) As of June 30, 2010, the repurchase agreement was collateralized at 102% for $11,892,378 by one Federal Loan Mortgage Corporation Gold security maturing December 1, 2029. This security carries AAA credit quality rating.
(2) The government direct-indirect securities are included in the credit quality rating and effective duration table in Note 3 D (Investments).

As of June 30, 2010, local governments invested $358,539,815 in STIP. As of June 30, 2010, component units of the State of Montana had investments in cash equivalents with a book value and fair value of $526,639,298.

**Investment Risk Disclosures**
The investment risk disclosures are described in the following paragraphs and are identified by the specific pools or securities to which they pertain, when applicable.

<u>Credit Risk</u>
Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The STIP securities have credit risk as measured by major credit rating services. This risk is that the issuer of a STIP security may default in making timely principal and interest payments. The Board of Investment's policy requires that STIP securities be rated an investment grade as defined by at least one of the Nationally Recognized Statistical Rating Organizations (NRSRO).

Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk, and do not require disclosure of credit quality per GASB Statement 40.

STIP investments are categorized above to disclose credit risk as of fiscal year end. Credit risk reflects the security quality rating, by investment security type, as of the June 30 report date. If a security investment type is unrated, the

quality type is indicated by NR (not rated). Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated by the NRSRO.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of fiscal year end, all STIP securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the board's custodial bank, State Street Bank, or the State's name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The STIP had concentration of credit risk exposure to the Federal Home Loan Bank of 5.56%, Federal National Mortgage Association (Fannie Mae) of 6.67 % and the Federal Home Loan Mortgage Corp. (Freddie Mac) of 10.00% as of June 30, 2010.

The concentration of credit risk for the rated securities is included in the disclosure in Note 3 D (Investments).

Interest Rate Risk

STIP interest rate risk is determined using the weighted average maturity (WAM) method. The WAM measure expresses investment time horizons: the time when investments are due and payable in days, months or years, weighted to reflect the dollar size of individual investments within an investment type.

Legal and Credit Risk

In January 2007, the Board purchased a $25 million par issue of Orion Finance USA. In April 2007, the Board purchased two issues of Axon Financial Funding totaling $90 million par and another $25 million par issue of Orion Finance USA. As of June 30, 2007, these Structured Investment Vehicle (SIV) securities held in the STIP portfolio carried a combined amortized cost of $139,991,131 representing 5.02% of the total portfolio. At the time of purchase and as of June 30, 2007, these four issues received the highest investment grade rating of AAA by Standard & Poors and Aaa by Moody's. Since June 30, 2008, these issues carry a D rating by Standard & Poors. On November 20, 2007, an insolvency event was declared by Axon Financial Funding. Orion Finance USA declared an insolvency event on January 14, 2008. On the January and April 2008 maturity dates, these securities matured at their amortized cost of $140 million. The Board has determined that it is currently in the best interest of the STIP to continue to hold these securities in the investment portfolio. These SIV securities are currently generating cash to be applied to the securities.

As of June 30, 2008, $2,729,889 was attributable to interest accrued to their respective maturity dates for the above securities. On November 14, 2008 and October 14, 2009, the Board received 100% payment of the accrued interest receivable from Axon Financial Funding of $1,825,967 and Orion Finance USA of $903,922, respectively.

For fiscal years 2010 and 2009, the Board received Axon Financial Funding payments on principal of $21,239,711 and interest compensation of $2,253,590 in excess of the accrued interest receivable. Axon Financial Funding payments totaled $25,319,268 for the two fiscal years. On October 14, 2009, the Board received its initial payment from Orion Finance USA. Fiscal year 2010 payments from Orion Finance USA included principal of $12,142,745 and interest compensation of $1,759,182 in excess of the $903,922 accrued interest receivable for a total of $14,805,849. In June and December 2009, the Board applied $21 million from the STIP reserve to the outstanding principal for the Axon Financial Funding and Orion Finance USA securities. As of June 30, 2010, the Axon Financial Funding and Orion Finance USA outstanding amortized cost balances are $55,260,289 and $30,357,255 million, respectively, for a combined SIV total of $85,617,544. Refer to Note 17 – Subsequent Events for additional information.

The Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corp. (Freddie Mac) were put into conservatorship on September 7, 2008.

A STIP reserve account was established in November 2007. Income is distributed to STIP participants based on accrued interest and discount amortization. To avoid distributing cash to participants based on accrued interest on

certain SIVs that may be uncollectible; the accrued interest amount was deposited in this account. Additional accrued income was deposited in the account to pay for any incidental direct expenses incurred as a part of any SIV restructuring activity not to be paid from SIV assets. Accrued income was also deposited in the account to offset any potential principal loss on these securities in the future.

## C. Equity in Pooled Investments

These securities consist of investments held by pooled investment funds. The Montana Domestic Equity Pool (MDEP), Trust Funds Investment Pool (TFIP), Retirement Funds Bond Pool (RFBP), Montana International Equity Pool (MTIP), Montana Private Equity Pool (MPEP), and Montana Real Estate Pool (MTRP) were created to allow qualifying funds to participate in diversified investment pools. Purchases are subject to the statutorily mandated "Prudent Expert Principle" *(see Table 3 – Equity in Pooled Investments).*

**Table 3 – Equity in Pooled Investments**
*(in thousands)*

| | Carrying Amount | Fair Value |
|---|---|---|
| **MDEP:** | | |
| Domestic equity pool | $2,347,508 | $2,205,950 |
| **TFIP:** | | |
| Corporate bonds (rated) | 691,087 | 716,824 |
| Core real estate | 54,000 | 53,595 |
| Municipal government bonds (rated) | 1,100 | 1,105 |
| Municipal government bonds (unrated) | 120 | 120 |
| U.S. government direct obligations | 360,274 | 375,574 |
| U.S. government agencies | 494,824 | 518,446 |
| U.S. government agencies (unrated) | 20,000 | 20,336 |
| High yield bonds | 90,000 | 92,694 |
| STIP | 35,294 | 35,294 |
| STIP Structured Investment Vehicle | 2,265 | 2,265 |
| **RFBP:** | | |
| Corporate bonds (rated) | 876,749 | 893,712 |
| International Government | 13,059 | 13,220 |
| U.S. government direct obligations | 353,133 | 363,443 |
| U.S. government agencies | 464,974 | 484,277 |
| U.S. government agencies (unrated) | 30,000 | 30,504 |
| Municipal bonds | 100 | 99 |
| State Street STIP | 90,971 | 90,971 |
| STIP | 4,365 | 4,365 |
| STIP Structured Investment Vehicle | 280 | 280 |
| **MTIP:** | | |
| International stock pool | 1,138,496 | 1,092,436 |
| **MPEP:** | | |
| Private equity pool | 845,012 | 854,832 |
| **MTRP:** | | |
| Real estate pool | 481,434 | 327,408 |
| STIP | 25,168 | 25,168 |
| STIP Structured Investment Vehicle | 1,615 | 1,615 |
| Total pooled investments | 8,421,828 | 8,204,533 |
| Pool adjustments (net) | (14,304) | (14,304) |
| Total equity in pooled investments | $8,407,524 | $8,190,229 |

As of June 30, 2010, the fair value of the underlying securities on loan was $1,265,408,946. Collateral provided for the securities on loan totaled $1,296,044,443, consisting of $522,023,477 in cash and $774,020,966 in securities.

As of June 30, 2010, component units of the State of Montana had equity in pooled investments with a book value of $5,156,297,171 and a fair value of $6,408,703,609, as included in Table 3.

**Investment Risk Disclosures**
The investment risk disclosures are described in the following paragraphs and are identified by the specific pools to which they pertain, when applicable.

Credit Risk
Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, the RFBP and TFIP fixed income instruments have credit risk as measured by major credit rating services. This is the risk that the issuer of a fixed income security may default with regard to the timely payment of interest and principal. The Board of Investments' policy requires RFBP and TFIP fixed income investments, at the time of purchase, to be rated investment grade as defined by Moody's (Baa3 or better) or by Standard & Poor's (S&P) (BBB- or better) rating services. The U.S. government securities are guaranteed directly or indirectly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The credit ratings presented in the tables below are provided by the S&P rating service. If an S&P rating is not available, a Moody's rating has been used.

The Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) were put into conservatorship on September 7, 2008.

In regard to the Bond Pool and the Investment Pool portfolios, on September 14, 2008, Lehman Brothers filed for Chapter 11 bankruptcy. The Bond Pool, Investment Pool and AOF portfolios held a $15 million position in Lehman Brothers Holdings, Inc., 2.778%, 05/25/2010. The AOF portfolio also includes a $5 million position in Lehman Brothers Holdings, Inc., 5%, 01/14/2011. As of September 30, 2008, the book value of these bond positions was written down to 80% of par. On October 30, 2008, the book value of these bonds was further written down to 65% of par. Four additional write downs occurred during fiscal year 2009. As of June 30, 2010, the book value of these bonds represents 20% of par.

Custodial Credit Risk
Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of fiscal year end, all the fixed-income securities were registered in the nominee name for the Montana Board of Investments. The Equity Index, US Bank repurchase agreement, real estate, mortgage, and loan investments were purchased and recorded in BOI's name. Commingled fund investments are registered in the name of the Montana Board of Investments.

Concentration of Credit Risk
Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. government are excluded from the concentration of credit risk requirement.

The RFBP had concentration of credit risk exposure to the Federal National Mortgage Association (Fannie Mae) of 17.98% as of June 30, 2010. The TFIP had concentration of credit risk exposure to the same issuer of 15.46% as of June 30, 2010. The RFBP had concentration of credit risk exposure to the Federal Home Loan Mortgage Corp. (FHLMC-Freddie Mac) of 10.24% as of June 30, 2010. The TFIP had concentration of credit risk exposure to FHLMC of 8.76% as of June 30, 2010.

With the exception of one fund, the 19 investment policy statements for various AOF state agencies do not address concentration of credit risk. One fund requires credit risk to be limited to 3 percent per private issuer name and 6 percent per triple-A rated issues of government entities. The policy revised in May 2010 states, "the maximum fixed income credit risk will be limited to 2% of the total securities portfolio in any one name." Investments by various governmental agencies, pooled as the All Other Funds, are excluded from the concentration of credit risk requirement.

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Bond Pool's and Investment Pool's duration is to remain within a specified range (e.g., plus or minus 20%) of the Index duration. The investment policies of the bond and investment pools do not formally address interest rate risk. In accordance with GASB Statement No. 40, the Board uses effective duration as a measure of interest rate risk for the bond and investment pool portfolios. BOI's analytic software uses "an option-adjusted measure of a bond's (or portfolio's) sensitivity to changes in interest rates. Duration is defined as the average percentage change in a bond's

price for a given change in interest rates. Prices move inversely to interest rates. The effective duration method incorporates the effect of embedded options for bonds and changes in prepayments for mortgage-backed securities (including pass-through securities, CMO, and ARM securities)."

Asset-backed securities are based on the cash flows from principal and interest payments emanating from a Trust containing a pool of underlying auto loan, credit card or other receivables. These securities, while sensitive to prepayments due to interest rate changes, generally have less credit risk than unsecured bonds. Their credit risk is based on the structure itself rather than balance sheet risk. This includes such factors as default rates, overcollateralization and quality of collateral.

The portfolios pay a fixed rate of interest until maturity while floating rate securities pay a variable rate of interest until maturity. As of fiscal year end, these portfolios held certain variable rate issues. Interest payments on these securities are based on an underlying proxy, e.g., LIBOR (London Interbank Offered Rate).

As of fiscal year end, the Bond Pool, Investment Pool and AOF portfolios held two Collateralized Debt Obligations (CDO) with a combined par of $50 million. A CDO is a structured debt security backed by a portfolio consisting of secured or unsecured bonds issued by a variety of corporate or sovereign obligors. The CDO positions are categorized as rated corporate debt.

The bond and investment pools' investments are categorized below to disclose credit and interest rate risk as of June 30, 2010.

Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date. Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). The credit quality ratings have been calculated excluding non-rated cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

Legal Risk
As of June 30, 2010, BOI was not aware of any legal risks regarding investments.

State of Montana investments are categorized below to disclose credit and interest rate risk as of June 30, 2010, as required for applicable pools. Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). Both the credit quality ratings and duration have been calculated excluding cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

**TFIP**
**Credit Quality Rating and Effective Duration as of June 30, 2010**
*(in thousands)*

| Security Investment Type | Fair Value | Credit Quality Rating | Effective Duration |
|---|---|---|---|
| Core Real Estate | $ 53,595 | NR | NA |
| Corporate Bonds (rated) | 716,824 | A+ | 4.99 |
| High Yield Bond Fund | 92,694 | B+ | 4.09 |
| Municipal Government Bonds (rated) | 1,105 | AA | .08 |
| Municipal Government Bonds (unrated) | 120 | NR | 4.57 |
| U.S. Government Direct Obligations | 375,574 | AAA | 5.97 |
| U.S. Government Agency | 518,446 | AAA | 2.44 |
| U.S. Government Agency (unrated) | 20,336 | NR | 7.93 |
| STIP | 37,559 | NR | .11 |
| Total fixed-income investments | $1,816,253 | AA- | 4.33 |
| Securities lending collateral investment pool | $ 100,913 | NR | .05 |

**RFBP**
**Credit Quality Rating and Effective Duration as of June 30, 2010**
*(in thousands)*

| Security Investment Type | Fair Value | Credit Quality Rating | Effective Duration |
|---|---|---|---|
| Corporate Bonds (rated) | $ 893,712 | A- | 4.92 |
| International Government | 13,220 | AA | 4.86 |
| Municipal Government Bonds | 99 | A+ | 3.16 |
| U.S. Government Direct Obligations | 363,444 | AAA | 6.49 |
| U.S. Government Agency | 484,277 | AAA | 2.17 |
| U.S. Government Agency (unrated) | 30,504 | NR | 7.93 |
| State Street Short Term Investment Fund (STIF) | 90,971 | NR | .08 |
| STIP | 4,645 | NR | .11 |
| Total fixed-income investments | $1,880,872 | AA- | 4.08 |
| Securities lending collateral investment pool | $ 205,756 | NR | .08 |

Foreign Currency Risk
Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The MTIP, RFBP, MPEP, and MTRP U.S. dollar cash and equity positions, by currency, are reported at fair value in the tables below.

**MTIP and RFBP**
**Cash and Securities by Foreign Currency**
*(in thousands)*

| | 2010 | |
|---|---|---|
| Currency | Cash | Securities |
| Australian Dollar | $ 189 | $ 22,163 |
| Brazilian Real | 408 | 6,040 |
| Canadian Dollar | 243 | 36,310 |
| Danish Krone | 51 | 5,122 |
| Euro | 839 | 113,979 |
| Hong Kong Dollar | 62 | 23,082 |
| Indonesian Rupiah | 10 | 834 |
| Hungarian Forint | 2 | 0 |
| Israeli Shekel | 0 | 1,289 |
| Japanese Yen | 670 | 82,073 |
| South Korean Won | 1 | 11,640 |
| Malaysian Ringgit | 23 | 4,326 |
| Mexican Peso | 0 | 680 |
| Norwegian Krone | 15 | 2,311 |
| Philippine Peso | 7 | 272 |
| Polish Zloty | 3 | 399 |
| Singapore Dollar | 38 | 6,883 |
| South African Rand | 0 | 2,536 |
| Swedish Krona | 15 | 5,517 |
| Swiss Franc | 40 | 25,563 |
| New Taiwan Dollar | 12 | 4,331 |
| Thailand Baht | 0 | 2,872 |
| Turkish Lira | 1 | 1,233 |
| UK Pound Sterling | 96 | 74,527 |
| Total Cash and Securities | $2,725 | $ 433,982 |

For fiscal year 2010, the securities total includes $420,761,152 in MTIP equities and $13,220,260 in RFBP fixed income investments.

**MPEP and MTRP Investments by Foreign Currency**
*(in thousands)*

| | | 2010 | |
|---|---|---|---|
| **Currency** | **Fund Manager Name** | **Carrying Value** | **Fair Value** |
| EURO | Terra Firma Fund III | $15,328 | $4,484 |
| EURO | HarbourVest Intl Private Equity Fund VI | 929 | 855 |
| EURO | Carlyle Europe Real Estate Partners III | 10,884 | 5,819 |
| Total MPEP and MTRP | | $27,141 | $11,158 |

Effective June 30, 2010, the BOI implemented the provisions of GASB Statement No. 53 – Accounting and Financial Reporting for Derivative Instruments. The derivative instrument disclosures are described in the following paragraphs. The fair value balances and notional amounts of derivative instruments outstanding as of June 30, 2010, classified by type, and the changes in the fair value of such derivative instruments for the year ended as reported in the 2010 financial statements are as follows:

| | Change in Fair Value | | Fair Value at June 30, 2010 | | |
|---|---|---|---|---|---|
| Investment Derivatives | Classification | Amount | Classification | Amount | Notional |
| Foreign currency forwards | Investment Revenue | $ 1,986,012 | LT debt/equity | $ 357,976 | 0 |
| Index futures long | Investment Revenue | 922,484 | Futures | 0 | 6,800 |
| Rights | Investment Revenue | (181,208) | Equity | 0 | 0 |
| TBA transaction long | Investment Revenue | 1,411,857 | LT debt | 3,013 | 580,000 |
| Warrants | Investment Revenue | (1,247) | Equity | 101,145 | 45,041 |
| Total derivatives | | $ 4,137,898 | | $ 462,134 | |

A foreign currency forward is a contract to purchase one currency and sell another at an agreed upon exchange rate. Fair value represents the unrealized appreciation/depreciation on foreign currency forward transactions pending as of June 30, 2010 and is the difference between the execution exchange rate at and the prevailing exchange rate as of the report date.

Credit Risk - Credit risk is the risk that a counterparty will not fulfill its obligations. The tables below depict the BOI's credit risk exposure to its investment derivatives and applicable counterparty credit ratings.

**Maximum Loss before and after Netting and Collateral**

| | | |
|---|---|---|
| Maximum amount of loss the Board would face in case of default of all counterparties i.e. aggregated (positive) fair value of OTC (Over-the-Counter) positions as of June 30, 2010. | $ | 1,116,279 |
| Effect of collateral reducing maximum exposure. | | - |
| Liabilities subject to netting arrangements reducing exposure. | | - |
| Resulting net exposure | $ | 1,116,279 |

| Counterparty Name | Percentage of Net Exposure | S&P Rating | Fitch Rating | Moody's Rating |
|---|---|---|---|---|
| Deutsche Bank AG London | 38% | A+ | AA- | Aa3 |
| State Street Bank and Trust | 31% | AA- | A+ | Aa2 |
| JP Morgan Chase Bank NA | 14% | AA- | AA- | Aa1 |
| Credit Suisse London Branch (GI | 13% | A+ | AA- | Aa1 |
| Standard Chartered Bank | 2% | A+ | A+ | A2 |
| Westpac Banking Corporation | 1% | AA | AA | Aa1 |
| Goldman Sachs & Co. | 0% | A | A+ | A1 |

## D. Investments

Article VIII of Montana's Constitution, with supporting statutes, authorizes the Board of Investments (BOI) to manage the State's unified investment program. Long-term investments are administered by the following agencies, as allowed by state law, Title 17, Chapter 6, Part 201, MCA:

**Long-term Investments**

| Department | Percent Administered |
|---|---|
| Board of Investments | 69.63% |
| PERA (Public Employee Retirement Administration) | 17.28 |
| Board of Housing | 6.00 |
| College Savings Plan | 5.45 |
| Montana State University/University of Montana | 1.21 |
| Other (1) | .43 |
| Total | 100.00% |

(1) Other consists of the Commissioner of Higher Education, the Department of Administration, the Department of Natural Resources and Conservation, the Department of Public Health and Human Services, and the Department of Revenue.

The BOI must employ the "Prudent Expert Rule" in managing the State's investment portfolio. Investments are presented at fair value. Investment fair values for publicly traded securities are determined primarily by reference to market prices supplied to the BOI's custodial bank or trustee. Amortized cost, or carrying value, represents the original cost, adjusted for premium and discount amortization where applicable.

**Table 4 – Investments**
*(in thousands)*

| | Carrying Amount | Fair Value |
|---|---|---|
| **Primary government** | | |
| Corporate bonds (rated) (1) | $ 24,909 | $ 25,871 |
| U.S. govt agency (1) | 100,265 | 106,938 |
| U.S. govt direct (rated) (1) | 880 | 959 |
| Government securities | 8,135 | 8,773 |
| STIP/SIV investments | 43,208 | 43,209 |
| Loans | 196,499 | 196,499 |
| Other equities | 2,520 | 2,521 |
| Total | $ 376,416 | $ 384,770 |
| **Component units/fiduciary funds** | | |
| Corporate bonds (rated) (1) | $ 567,494 | $ 599,383 |
| U.S. govt agency (1) | 242,409 | 237,604 |
| U.S. govt direct (rated) (1) | 146,995 | 182,715 |
| Government securities | 8,935 | 9,035 |
| STIP/SIV Investments | 38,227 | 38,227 |
| Mortgages | 35,778 | 35,527 |
| Other equities | 102,407 | 110,790 |
| Deferred compensation | 320,319 | 320,319 |
| Defined contribution | 56,671 | 56,671 |
| 529 College Savings Plan | 118,992 | 118,992 |
| VEBA | 1,304 | 1,289 |
| Investments of MSU component units | 132,055 | 132,055 |
| Investments of UM component units | 145,004 | 145,004 |
| Real estate | 17,027 | 17,346 |
| Other | 148,423 | 151,967 |
| Total | $ 2,082,040 | $ 2,156,924 |
| Total investments | $ 2,458,456 | $ 2,541,694 |
| Securities lending collateral investment pool | $ 205,394 | $ 205,394 |

(1) The credit quality rating and duration are included below for the rated investments.

The PERS Defined Contribution Retirement Plan and the deferred compensation plan's fixed assets were invested and managed on behalf of the plans by Pacific Investment Management Company (PIMCO) and State Street Bank Kansas City (SSKC). The third party record keeper, Great West Retirement Services, tracks and reports the daily trading and valuations of all investment options, including the assets held by the individual mutual fund companies. When participants invest in the fixed investment, they are guaranteed a rate of return. The PERS-DCRP fixed money is invested in a PIMCO mutual fund. The minimum average portfolio quality must be an A rating; the minimum issue quality must be a BB-rating; and the minimum commercial paper quality must be A2/P2. Variable investments are held and managed by a selection of retail and institutional mutual funds, which cover all standard asset classes and categories. VEBA (Voluntary Employee Benefit Association) investments are made in mutual fund equities and mutual fund fixed-income funds. The Montana 529 College Savings Plan is invested in Pacific Life mutual funds and College Savings Bank fixed-income products.

**All Other Funds - Rated Securities**
**Credit Quality Rating and Effective Duration as of June 30, 2010**
*(in thousands)*

| Security Investment Type | Fair Value | Credit Quality Rating | Effective Duration |
|---|---|---|---|
| Corporate Bonds (Rated) (1) | $ 649,782 | A | 3.25 |
| U.S. Government Direct Obligations (1) | 195,384 | AAA | 4.67 |
| U.S. government Agency(1) | 379,072 | AAA | 2.83 |
| US Bank Sweep Repurchase Agreement (1)(2) | 11,659 | NR | |
| Total | $1,235,897 | AA- | 3.31 |

(1) These rated securities are reported on both Table 2 – Cash Equivalents and Table 4 – Investments.
(2) The US Bank repurchase agreement, per contract, was collateralized at 102% for $11,892,378 by one Federal Home Loan Mortgage Corporation Gold security maturing December 1, 2029. This security carries AAA credit quality rating.

**Investment Risk Disclosures**
The investment risk disclosures are described in the following paragraphs and are identified by the specific securities to which they pertain, when applicable.

Credit Risk
Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, the AOF (All Other Funds) fixed-income instruments have credit risk as measured by major credit rating services. This risk is that the issuer of a fixed-income security may default in making timely principal and interest payments. The Board of Investment's policy requires AOF fixed-income investments, at the time of purchase, to be rated an investment grade as defined by Moody's (Baa3 or better) or by Standard & Poor's (S&P) (BBB- or better) rating services. The U.S. government securities are guaranteed directly or indirectly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The credit ratings presented in the above table are provided by S&P's rating services. If an S&P rating is not available, a Moody's rating has been used. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date.

In regard to the AOF portfolio, on September 14, 2008, Lehman Brothers filed for Chapter 11 bankruptcy. The Bond Pool, Investment Pool and AOF portfolios held a $15 million position in Lehman Brothers Holdings, Inc., 2.778%, 05/25/2010. The AOF portfolio also includes a $5 million position in Lehman Brothers Holdings, Inc., 5%, 01/14/2011. As of September 30, 2008, the book value of these bond positions was written down to 80% of par. On October 30, 2008, the book value of these bonds was further written down to 65% of par. Four additional write downs occurred during fiscal year 2009. As of June 30, 2010, the book value of these bonds represents 20% of par.

Custodial Credit Risk
Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of fiscal year end, all the fixed-income securities were registered in the nominee name for the Montana Board of Investments. The Equity Index, US Bank repurchase agreement, real estate, mortgage, and loan investments were purchased and recorded in BOI's name. Commingled fund investments are registered in the name of the Montana Board of Investments.

Concentration of Credit Risk
Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. government are excluded from the concentration of credit risk requirement.

With the exception of one fund, the 19 investment policy statements for various AOF state agencies do not address concentration of credit risk. One fund requires credit risk to be limited to 3 percent per private issuer name and 6 percent per triple-A rated issues of government entities. The policy, revised in May 2010, states, "the maximum fixed income credit risk will be limited to 2% of the total securities portfolio in any one name." Investments by various governmental agencies, pooled as the All Other Funds, are excluded from the concentration of credit risk requirement.

This concentration of credit risk includes the rated securities from Table 2 – Cash Equivalents and Table 4 – Investments.

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. With the exception of one fund, the AOFs' investment policies do not formally address interest rate risk. This fund's policy sets an average duration range of 2-5 years for fixed income securities except in extraordinary circumstances where a shorter duration may be advisable. In accordance with GASB Statement No. 40, the Board uses effective duration as a measure of interest rate risk for the AOF portfolio. Our analytic software uses "an option-adjusted measure of a bond's (or portfolio's) sensitivity to changes in interest rates. Duration is defined as the average percentage change in a bond's price for a given change in interest rates. Prices move inversely to interest rates. The effective duration method incorporates the effect of embedded options for bonds and changes in prepayments for mortgage-backed securities (including pass-through securities, CMO, and ARM securities)."

Asset-backed securities are based on the cash flows from principal and interest payments emanating from a Trust containing a pool of underlying auto loan, credit card or other receivables. These securities, while sensitive to prepayments due to interest rate changes, generally have less credit risk than unsecured bonds. Their credit risk is based on the structure itself rather than balance sheet risk. This includes such factors as default rates, overcollateralization and quality of collateral.

The AOF bonds pay a fixed rate of interest until maturity while floating rate securities pay a variable rate of interest until maturity. As of fiscal year end, these portfolios held certain variable rate issues. Interest payments on these securities are based on an underlying proxy, e.g., LIBOR (London Interbank Offered Rate).

As of fiscal year end, the Bond Pool, Investment Pool and AOF portfolio held two Collateralized Debt Obligations (CDO) with a combined par of $50 million. A CDO is a structured debt security backed by a portfolio consisting of secured or unsecured bonds issued by a variety of corporate or sovereign obligors. The CDO positions are categorized as rated corporate debt.

AOF investments are categorized to disclose credit and interest rate risk as of the fiscal year end. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date. Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). The credit quality ratings have been calculated excluding non-rated cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

Legal Risk
As of June 30, 2010, there were no known legal risks regarding investments.

**NOTE 4. DISAGGREGATION OF ACCOUNTS RECEIVABLE AND PAYABLE**

A disaggregation of the net receivables and accounts payable (by fund type) as of June 30, 2010, follows (amounts in thousands):

**A. Receivables**

| | Governmental Funds | | | | | |
|---|---|---|---|---|---|---|
| | General | State Special Revenue | Federal Special Revenue | Coal Severance Tax Permanent | Land Grant Permanent | Nonmajor Governmental |
| Licenses and permits | $ - | 3,820 | $ - | $ - | $ - | $ - |
| Taxes | 202,964 | 71,025 | - | 4,644 | - | 88 |
| Charges for services/ fines/forfeitures | 42 | 15,149 | 4,552 | - | 48,894 | 362 |
| Investment income | 608 | 4,621 | 8 | 3,437 | 3,837 | 5,338 |
| Contributions/premiums | - | 22,347 | - | - | - | - |
| Reimbursements/ overpayments | 10,940 | 4,997 | - | - | - | - |
| Grants/contracts/ donations | - | 136 | - | - | - | - |
| Other | 3,998 | 2,321 | 9,824 | - | - | 61 |
| Total receivables | 218,552 | 124,416 | 14,384 | 8,081 | 52,731 | 5,849 |
| Less: Allowance for doubtful accounts | (13,131) | (15,059) | (1,314) | - | - | - |
| Receivables, net | 205,421 | 109,357 | 13,070 | 8,081 | 52,731 | 5,849 |

| | Proprietary Funds | | | |
|---|---|---|---|---|
| | Unemployment Insurance | Economic Development Bonds | Nonmajor Enterprise | Internal Service |
| Charges for services | $ - | $ - | 20,589 | 210 |
| Investment income | - | 7,180 | 21 | 270 |
| Contributions/premiums | 12,005 | - | 6,214 | 2,396 |
| Other | - | - | 181 | 12 |
| Total receivables | 12,005 | 7,180 | 27,005 | 2,888 |
| Less: Allowance for doubtful accounts | (5,070) | - | (38) | (11) |
| Receivables, net | 6,935 | 7,180 | 26,967 | 2,877 |

## B. Payables

| | Governmental Funds | | | | |
|---|---|---|---|---|---|
| | General | State Special Revenue | Federal Special Revenue | Land Grant Permanent | Nonmajor Governmental |
| Tax refunds | $ 126,930 | $ - | $ - | $ - | $ - |
| Vendors/Individuals | 52,355 | 77,509 | 116,151 | - | 6,107 |
| Payroll | 10,581 | 10,320 | 4,017 | - | 17 |
| Accrued Interest | - | - | - | 3,749 | - |
| Total | $ 189,866 | $ 87,829 | $ 120,168 | $ 3,749 | $ 6,124 |

| | Proprietary Funds | | | |
|---|---|---|---|---|
| | Unemployment Insurance | Economic Development Bonds | Nonmajor Enterprise | Internal Service |
| Vendors/Individuals | $ 461 | $ 1 | $ 12,592 | $ 13,874 |
| Payroll | - | 5 | 445 | 1,654 |
| Accrued Interest | - | 180 | - | 4 |
| Total | $ 461 | $ 186 | $ 13,037 | $ 15,532 |

## NOTE 5. CAPITAL ASSETS

### A. Primary Government

Changes in capital asset balances for the fiscal year ended June 30, 2010, are reflected in the following table (in thousands):

**Primary Government**

| | Beginning Balance | Increases (1) | Decreases (1) | Ending Balance |
|---|---|---|---|---|
| **Governmental Activities** | | | | |
| Capital assets not being depreciated: | | | | |
| Land | $ 461,503 | $ 65,601 | $ (7,806) | $ 519,300 |
| Construction Work In Progress | 224,227 | 459,073 | (178,248) | 505,052 |
| Easements | 88,659 | 366 | (236) | 88,789 |
| Museum & Art | 99,397 | 1,270 | (36,306) | 64,361 |
| Other | 10,421 | (149) | (423) | 9,849 |
| Total Capital Assets not being depreciated | 884,207 | 526,161 | (223,019) | 1,187,349 |
| Capital assets being depreciated: | | | | |
| Infrastructure | 3,829,186 | 341,677 | (255,752) | 3,915,111 |
| Land Improvements | 28,245 | 4,222 | (13) | 32,454 |
| Buildings/Improvements | 440,433 | 31,803 | (1,087) | 471,149 |
| Equipment | 314,868 | 28,701 | (16,643) | 326,926 |
| Easements - Amortized (2) | 2,106 | 0 | (73) | 2,033 |
| Other (2) | 4,292 | 161 | (16) | 4,437 |
| Total Capital Assets being depreciated | 4,619,130 | 406,465 | (273,584) | 4,752,110 |
| Less Accumulated Depreciation for: | | | | |
| Infrastructure | (1,312,655) | (219,291) | 181,326 | (1,350,620) |
| Land Improvements | (6,481) | (1,494) | 3 | (7,972) |
| Buildings/Improvements | (225,369) | (20,046) | 457 | (244,958) |
| Equipment | (198,452) | (22,567) | 12,401 | (208,618) |
| Other | (3,791) | (193) | 2 | (3,982) |
| Total accumulated depreciation | (1,746,748) | (263,591) | 194,189 | (1,816,150) |
| Total capital assets being depreciated net | 2,872,382 | 142,973 | (79,395) | 2,935,960 |
| Intangible Assets | 31,246 | 18,066 | (23,417) | 25,895 |
| Governmental activities capital assets net | $ 3,787,835 | $ 687,200 | $ (325,831) | $ 4,149,204 |

(1) The increases and decreases noted above include adjustments related to prior periods and corrections of errors.
(2) For 2010, Other Depreciable Assets are presented in more detail.

**Primary Government** *(continued)*

| | Beginning Balance | Increases (1) | Decreases (1) | Ending Balance |
|---|---|---|---|---|
| **Business-type activities** | | | | |
| Capital assets not being depreciated: | | | | |
| Land | $ 800 | $ - | $ - | $ 800 |
| Construction Work In Progress | 167 | 1,433 | (63) | 1,537 |
| Total Capital Assets not being depreciated | 967 | 1,433 | (63) | 2,337 |
| Capital assets being depreciated: | | | | |
| Infrastructure | 884 | 31 | - | 915 |
| Land Improvements | 3,830 | - | - | 3,830 |
| Buildings/Improvements | 7,344 | 123 | (13) | 7,454 |
| Equipment | 6,037 | 1,392 | (132) | 7,297 |
| Other | 3,191 | 14 | (60) | 3,145 |
| Total Capital Assets being depreciated | 21,286 | 1,560 | (205) | 22,641 |
| Less Accumulated Depreciation for: | | | | |
| Infrastructure | (572) | (22) | - | (594) |
| Land Improvements | (567) | (168) | 12 | (723) |
| Buildings/Improvements | (4,552) | (192) | - | (4,744) |
| Equipment | (4,098) | (361) | - | (4,459) |
| Other Fixed Assets | (53) | - | 38 | (15) |
| Total accumulated depreciation | (9,842) | (743) | 50 | (10,535) |
| Total capital assets being depreciated net | 11,444 | 817 | (156) | 12,106 |
| Intangible Assets | 128 | 15 | (52) | 91 |
| Business Type activities capital assets net | 12,539 | 2,265 | (270) | 14,534 |

(1) The increases and decreases noted above include adjustments related to prior periods and corrections of errors.

Depreciation expense was charged to governmental functions as follows (in thousands):

| | Amount |
|---|---|
| General Government | $ 10,010 |
| Public Safety/Corrections | 8,286 |
| Transportation (including depreciation of the highway system maintained by the state) | 221,618 |
| Health/Social Services | 1,759 |
| Educational/Cultural | 714 |
| Resource Development/Recreation (including depreciation of the state's dams) | 7,634 |
| Depreciation and amortization on capital assets held by the States internal service funds is charged to the various functions based on their usage of the assets. | 13,570 |
| Total depreciation expense - governmental activities | $263,591 |

Depreciation expense was charged to business-type activities as follows (in thousands):

| | Amount |
|---|---|
| Liquor Stores | $ 101 |
| State Lottery | 162 |
| General Government Services | 218 |
| Prison Funds | 262 |
| Total Depreciation Expense - Business-Type Activities | $ 743 |

## B. Discretely Presented Component Units

The following table summarizes net capital assets reported by the discretely presented component units (in thousands). All component units, other than higher education units, are included under the "Other" caption for this schedule:

| | Montana State University | University of Montana | Other | Total |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | $ 6,933 | $ 7,817 | $ 1,139 | $ 15,889 |
| Construction Work In Progress | 12,289 | 18,184 | - | 30,473 |
| Capitalized Collections | 8,297 | 17,160 | - | 25,457 |
| Livestock for educational purposes | 3,071 | - | - | 3,071 |
| Total Capital Assets not being depreciated | 30,590 | 43,161 | 1,139 | 74,890 |
| Capital assets being depreciated: | | | | |
| Infrastructure | 34,836 | 6,770 | - | 41,606 |
| Land Improvements | 16,183 | 12,884 | - | 29,067 |
| Buildings/Improvements | 450,078 | 470,315 | 27,835 | 948,228 |
| Equipment | 125,984 | 62,942 | 7,165 | 195,091 |
| Livestock | - | 14 | - | 14 |
| Library Books (1) | 63,004 | 54,945 | - | 117,949 |
| Total Capital Assets being depreciated | 690,085 | 607,870 | 35,000 | 1,332,955 |
| Total accumulated depreciation | (372,221) | (306,215) | (2,939) | (681,375) |
| Total Capital Assets being depreciated net | 317,864 | 301,655 | 32,061 | 651,580 |
| Intangible Assets | 953 | 347 | 4,528 | 5,828 |
| MSU Component Unit Capital Assets, net | 10,578 | - | - | 10,578 |
| UM Component Unit Capital Assets, net | - | 4,116 | - | 4,116 |
| Discretely Presented Component Units capital assets net | $ 359,985 | $ 349,279 | $ 37,728 | $ 746,992 |

(1) For 2010, Other Depreciable Assets are presented in more detail.

# NOTE 6. RETIREMENT PLANS

## A. General

The Public Employees' Retirement Board (PERB), a discretely presented component unit of the State of Montana, administers eight defined benefit plans: Public Employees' Retirement System-Defined Benefit Retirement Plan (PERS-DBRP), Judges' Retirement System (JRS), Highway Patrol Officers' Retirement System (HPORS), Sheriffs' Retirement System (SRS), Game Wardens' and Peace Officers' Retirement System (GWPORS), Municipal Police Officers' Retirement System (MPORS), Firefighters' Unified Retirement System (FURS), and Volunteer Firefighters Compensation Act (VFCA). The PERB also administers two defined contribution plans: The Public Employees' Retirement System-Defined Contribution Retirement Plan (PERS-DCRP) and the Deferred Compensation (457) Plan The PERB prepares a publicly issued comprehensive annual financial report that includes

financial statements and required supplementary information for PERS-DBRP, JRS, HPORS, SRS, GWPORS, MPORS, FURS, VFCA, as well as the two defined contribution plans, PERS-DCRP and Deferred Compensation plans. Separately issued financial statements can be obtained at 100 North Park, Suite 200, PO Box 200131, Helena, MT 59620-0131.

The financial statements for PERS-DBRP include activity for the defined benefit and the associated education fund. The PERS-DCRP financial statements include activity for the defined contribution and the associated education and disability funds.

The Teachers Retirement System (TRS) is a discretely presented component unit of the State of Montana and administered by the Teachers Retirement Board. The plan prepares a publicly issued comprehensive annual financial report that includes financial statements and required supplementary information for TRS. Separately issued financial statements can be obtained at 1500 Sixth Avenue, P O Box 200139, Helena, MT 59620-0319.

## B. Plan Descriptions

The State contributes to and/or administers ten plans in two categories: (1) the State as the single employer; and (2) the State as an employer contributor to cost-sharing, multiple-employer plans.

The number of years required to obtain vested rights varies among the plans. All plans provide early retirement options, death benefits, termination, and disability benefits. The post-retirement benefits of each of the plans are included in the tables that follow.

The funding policies for each plan provide for periodic employer and employee contributions (except VFCA) at rates specified by state law. An actuary determines the actuarial implications of the funding requirement in an annual actuarial valuation. The actuarial method used to determine the implications of the statutory funding level is the Entry Age Actuarial Cost Method, with both normal cost and amortization of the unfunded actuarial liability determined as a level percentage of payrolls. To maintain a fund on an actuarially sound basis, the rate of contributions should fund the normal cost, in addition to amortizing the unfunded liability over a period not to exceed 30 years.

## C. Public Employee Defined Benefit Retirement Plans.

### (1) State as the Single Employer

A summary of government employees participating in JRS and HPORS by employer type at June 30, 2010, follows:

| Employers | JRS | HPORS |
|---|---|---|
| State agencies | 1 | 1 |
| Total | 1 | 1 |

**JRS** – Judges' Retirement System – JRS is a single-employer defined benefit pension plan established in 1967 and governed by Title 19, chapters 2 & 5 of the Montana Code Annotated (MCA). This system provides retirement benefits for all Montana judges of district courts, justices of the Supreme Court, and the Chief Water Judge.

**HPORS** – Highway Patrol Officers' Retirement System – HPORS is a single-employer, defined benefit pension plan, established July 1, 1971 and governed by Title 19, chapters 2 & 6 of the MCA. This system provides retirement benefits for all members of the Montana Highway Patrol, including supervisory personnel. Eligible members, retired prior to July 1, 1991, or their survivors may be eligible for an annual supplemental lump-sum payment distributed each September. Many factors must be considered for eligibility, including the number of years the recipient has received a service retirement or disability benefit, the recipient's age, and whether the recipient is employed in a position covered by a retirement system under Title 19. This lump-sum payment is funded by registration fees requested by the PERB from the general fund. The average annual supplemental payment for non-

GABA retirees was $2,678 in September 2010. This enhancement is limited to non-GABA (Guaranteed Annual Benefit Adjustment) retirees.

For the funded status, and funding progress of the JRS and HPORS, plans refer to the Required Supplementary Information.

**(2) State as an Employer Contributor to Cost-Sharing, Multiple-Employer Plans**

A summary of government employers participating in PERS-DBRP, SRS, GWPORS, MPORS, FURS, and TRS by employer type at June 30, 2010, follows:

| Employers | PERS-DBRP | SRS | GWPORS | MPORS | FURS | TRS |
|---|---|---|---|---|---|---|
| State agencies | 34 | 1 | 4 | | 1 | 9 |
| Counties | 55 | 56 | | | | |
| Cities/towns | 97 | | | 30 | 16 | |
| Rural Fire Districts | | | | | 6 | |
| Colleges/universities | 5 | | 3 | | | 5 |
| Highs School | 6 | | | | | |
| School districts | 231 | | | | | 351 |
| Other Agencies | 105 | | | | | |
| Total | 533 | 57 | 7 | 30 | 23 | 365 |

**PERS-DBRP** – Public Employees Retirement System - Defined Benefit Retirement Plan – PERS-DBRP is a defined benefit cost sharing, multiple-employer public retirement system established on July 1, 1945 and governed by Title 19, chapters 2 & 3 of the MCA. This plan provides retirement, disability and death benefits to substantially all public employees and their beneficiaries not covered by another public plan.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on an actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. As of June 30, 2010, the statutory contribution rates are insufficient. The unfunded actuarial accrued liability does not amortize.

**SRS** – Sheriffs Retirement System – This is a defined benefit cost-sharing, multiple-employer retirement system established on July 1, 1974 and governed by Title 19, chapters 2 & 7 of the MCA. The plan provides retirement benefits to all State Department of Justice criminal and gambling investigators hired after July 1, 1993, all detention officers hired after July 1, 2005, and all Montana sheriffs.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. As of June 30, 2010, the statutory contribution rates are insufficient. The unfunded actuarial accrued liability does not amortize.

**GWPORS** – Game Wardens & Peace Officers Retirement System – This is a defined benefit cost-sharing, multiple-employer retirement system established in 1963 and governed by Title 19, Chapters 2 & 8 of the MCA. The plan provides retirement benefits for all persons employed as game wardens, warden supervisory personnel, or state peace officers.

Actuarial Status: The Montana Constitution Article VIII, Section 15, requires public retirement plans be funded on an actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate, plus an amortization payment of the unfunded actuarial liability, if any over no more than 30 years. As of June 30, 2010, the statutory contribution rates are insufficient. The unfunded actuarial accrued liability does not amortize.

**MPORS** – Municipal Police Officers Retirement System – MPORS is a defined benefit cost-sharing, multiple-employer retirement system established in 1974 and governed by Title 19, chapters 2 & 9 of the MCA,. This plan covers all municipal police officers of first- and second-class cities and other cities that adopt the plan. It is a cost-sharing defined benefit plan with a special funding situation.

As of July 1, 2002, eligible members of MPORS have the opportunity to participate in the Deferred Retirement Option Plan (DROP) by filing a one-time irrevocable election with the PERB. The DROP is governed by Title 19, chapter 9, part 12, MCA. An eligible member must have completed at least 20 years of membership service. They may elect to participate in the DROP for a minimum of one month and a maximum of 60 months and may participate in the DROP only once. A participant remains a member of the MPORS, but will not receive membership service or service credit in the system for the duration of the member's DROP period. During the participation in the DROP, all mandatory contributions continue to be made to the retirement plan. A monthly benefit is calculated based on salary and years of service to the date of the beginning of the DROP period. The monthly benefit is paid into the member's DROP account until the end of the DROP period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service. The DROP account cannot be distributed until employment is formally terminated.

**FURS** – Firefighters Unified Retirement System – This is a defined benefit cost-sharing, multiple-employer retirement system established in 1981 and governed by Title 19, chapters 2 & 13 of the MCA, The plan provides retirement benefits for firefighters employed by first- and second-class cities, other cities and rural fire district departments that adopt the plan, and to firefighters hired by the Montana Air National Guard (MANG) on or after October 1, 2001.

**VFCA** – Volunteer Firefighters Compensation Act – This compensation plan, established in 1965 and governed by Title 19, chapters 2 & 17 of the MCA, provides pension, disability and survivorship benefits for all volunteer firefighters who are members of qualified volunteer fire companies in unincorporated areas; towns, villages and includes volunteer fire departments, fire districts, and fire service areas under the laws of the state. VFCA also provides limited benefits for death or injuries incurred in the line of duty. VFCA is a plan with a special funding situation.

**TRS** – Teachers Retirement System – This mandatory plan, established in 1937 and governed by Title 19, chapter 20 of the MCA, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, special education cooperative, state agency, community college, or unit of the university system.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. As of June 30, 2010, the amortization period for the unfunded actuarial liability is 49.5.

### D. Public Employee Defined Contribution Retirement Plans

A summary of government employers participating in the PERS-DCRP and Deferred Compensation plans by employer type at June 30, 2010 follows:

| Employers | PERS-DCRP | 457 |
|---|---|---|
| State agencies | 32 | 1 |
| Counties | 44 | 2 |
| Cities/towns | 44 | 4 |
| Colleges/universities | 5 | 6 |
| High Schools | 3 | |
| School districts | 81 | 2 |
| Other Agencies | 35 | 6 |
| Total | 244 | 21 |

**PERS-DCRP** – Public Employees Retirement System - Defined Contribution Retirement Plan – This plan is a multiple-employer plan established July 1, 2002 and governed by Title 19, chapter 2 & 3 of the MCA.

All new hires initially are members of the Public Employees Retirement System - Defined Benefit Retirement Plan (PERS-DBRP). New hires have a 12-month window during which they may choose to transfer to the PERS-DCRP or remain in the current PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. The choice is irrevocable. Members of the defined contribution retirement plan direct their contributions and a portion of their employer's contributions among the offered investment options. The remaining portion of their employer's contributions is to be used to reduce the Plan Choice Rate unfunded actuarial liability, to fund the long-term disability benefits to participants of the DCRP, and to fund an employee education program. The employer and employee plan contributions as of June 30, 2010, were $4,028,919 and $6,139,800, respectively.

**457** – Deferred Compensation (457) Plan – The Deferred Compensation (457) plan was established in 1976 and is governed by Title 19, chapter 50, MCA, in accordance with Internal Revenue Service Code (IRC) 457. All employees of the State, the Montana University System, and contracting political subdivisions are eligible to participate.

The Deferred Compensation plan is a voluntary, supplemental retirement savings plan. Assets of the 457 Deferred Compensation plan are required to be held in trusts, custodial accounts, or insurance company contracts for the exclusive benefit of participants and their beneficiaries. Participants elect to defer a portion of their salary, within IRC limits. The deferred salary is not available to employees until separation from service, retirement, death, or upon an unforeseeable emergency while still employed provided IRC-specified criteria are met. Participant rights are fully vested in their accounts at the time of deposit. The employer and employee plan contributions as of June 30, 2010, were $61,464 and $18,607,433, respectively.

### E. Optional Retirement Program

**ORP** – Optional Retirement Program – Effective January 1, 1988 through June 30, 1993, eligible employees of the Montana University System (MUS) could elect to participate in the Optional Retirement Program (ORP). The ORP is a defined contribution retirement plan governed by Title 19, chapter 21 of the Montana Code Annotated. The plan is underwritten by the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF); only faculty and staff with contracts under the authority of the Board of Regents may participate. Those faculty and staff members, who did not elect the ORP participate in the Teachers' Retirement System or the Public Employees' Retirement System benefit plans. Beginning July 1, 1993, membership in the ORP was mandatory for eligible employees new to the MUS. The MUS is the only employer contributing to this plan.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses, and the employee life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. Individuals are immediately vested with all contributions. Higher education units record

employee/employer contribution expenditures in the affected higher education sub-fund when remitting contributions to the Commissioner of Higher Education. These monies are recorded in the Custodial Accounts Agency Fund. The Commissioner's Office then wire-transfers the contributions to TIAA-CREF. The MUS is not liable for asset management or for providing benefits after the required contributions have been made to TIAA-CREF.

Required employee contributions were 7.03% of salary; required employer contributions were 5.84% of salary, for a total of 12.87% of salary contributed to the ORP (refer to the following table).

| | **TIAA-CREF** *(in thousands)* |
|---|---|
| Covered payroll | $195,975 |
| Total payroll | 368,970 |
| | |
| Employer contributions | $ 11,445 |
| Percent of covered payroll | 5.84% |
| | |
| Employee contributions | $ 13,772 |
| Percent of covered payroll | 7.03% |

## F. Summary of Significant Accounting Policies

The pension trust funds' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and when the employer has made a formal commitment to provide the contributions. Benefits and refund distributions are recognized when due and payable in accordance with the terms of each plan.

## G. Method Used to Value Investments

The Montana Board of Investments (BOI) manages the investments for the defined benefit retirement plans. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on a discounted cash flow. Investments that do not have an established market are reported at estimated fair value. These values are based on market prices supplied to the BOI by its custodial bank, State Street Bank, and various brokerage services.

For details on investments, see Note 3, section D.

## H. Long-term Contracts for Contributions

The Montana Legislature enacted a provision of the Employee Protection Act (EPA) (Title 19, Chapter 2, Part 706, MCA), related to the Employee Protection Act, allowing state and university system employees who are eligible for a service retirement and whose positions have been eliminated to have their employer pay a portion of the total cost of purchasing up to three years of "1-for -5"additional service. The employees participating under section 19-2-706, MCA increased from 192 in fiscal year 2009 to 199 in fiscal year 2010.

The employer has up to ten years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. Total retirement incentive contributions received, including interest, during fiscal year 2010 were $75,418. As of June 30, 2010, outstanding balances were $25,660.

A summary of contribution rates, funding progress, employer and employee contributions, and eligibility and benefits for each retirement plan is provided in the tables on the following pages.

The information presented in this schedule was determined as part of the actuarial valuations at the dates indicated in the table below. Additional information as of the latest actuarial valuation follows:

**Pension Plan Information**
**Single Employer Systems**

| | JRS | HPORS |
|---|---|---|
| Contributions (in thousands) | | |
| Employer | $1,468 | $4,763 |
| Employee | 595 | 1,261 |
| License and registration fees | | 287 |
| Actuarial valuation date | 6/30/2010 | 6/30/2010 |
| Actuarial cost method | Entry age | Entry age |
| Amortization method | Level percentage of payroll open | Level percentage of payroll open |
| Remaining amortization period | 30 years (1) | 29.9 years |
| Asset valuation method | 4-year smoothed market | 4-year smoothed market |
| Actuarial assumptions: | | |
| Investment rate of return | 7.75% | 7.75% |
| Projected salary increases | 4.00% | 4.00% |
| includes inflation factor | 3.00% | 3.00% |
| Merit | None | 0%-7.3% |
| Benefit adjustments | | |
| GABA | 3% after 1 year | 3% after 1 year |
| Non-GABA | Biennial increase to salary of active member in like position | 2% per year of service, not to exceed 60% of probationary officer's base salary and the increase may not exceed 5% of the current benefit. |

(1) Assets are larger than the past service liability, creating an unfunded credit; the credit is amortized over future costs.

## Schedule of Contribution Rates
## Fiscal Year 2010

| Plan | Member | Employer | State |
|---|---|---|---|
| **PERS-DBRP** | **6.9%** [19-3-315, MCA] | **7.17%** State & University<br>**7.07%** Local Governments<br>**6.8%** School Districts (K-12)<br>[19-3-316, MCA] | **0.1%** Local Government payroll - paid from the General Fund<br>[19-3-319, MCA]<br>**0.37%** School Districts (K-12) payroll – paid from the General Fund<br>[19-3-319, MCA] |
| **MPORS** | **7.0%** - hired after 6/30/1975 & prior to 7/1/1979 & not electing GABA<br>[19-9-710(b), MCA]<br>**8.5%** - hired after 6/30/1979 & prior to 7/1/1997 & not electing GABA<br>[19-9-710(c), MCA]<br>**9.0%** - hired after 6/30/1997 & members electing GABA<br>[19-9-710(d), MCA] & 19-9-710(2), MCA] | **14.41%** [19-9-703, MCA] | **29.37%** of salaries - paid from the General Fund<br>[19-9-702, MCA] |
| **FURS** | **9.5%** - hired prior to 7/1/1997 & not electing GABA<br>[19-13-601(2)(a), MCA]<br>**10.7%** - hired after 6/30/1997 & members electing GABA<br>[19-13-601(2)(b), MCA] | **14.36%** [19-13-605, MCA] | **32.61%** of salaries - paid from the General Fund<br>[19-13-604, MCA] |
| **SRS** | **9.245%** [19-7-403, MCA] | **10.115%** [19-7-404, MCA] | |
| **HPORS** | **9.0%** - hired prior to 7/1/1997 & not electing GABA<br>**9.05%** - hired after 6/30/1997 & members electing GABA<br>[19-6-402, MCA] | **26.15%** [19-6-404(1), MCA]<br>**10.18%** of salaries - paid from the General Fund<br>[19-6-404(2), MCA] | |
| **JRS** | **7.0%** [19-5-402, MCA] | **25.81%** [19-5-404, MCA] | |
| **GWPORS** | **10.56%** [19-8-502, MCA] | **9.0%** [19-8-504, MCA] | |
| **VFCA** | | | **5.0%** of fire insurance premiums - paid from the General Fund<br>[19-17-301, MCA] |
| **PERS-DCRP** | **6.9%** [19-3-315, MCA] | **7.17%** State & University<br>**7.07%** Local Governments<br>**6.8%** School Districts (K-12)<br>[19-3-316, MCA] | **0.1%** Local Government payroll - paid from the General Fund<br>**0.37%** School Districts (K-12) payroll – paid from the General Fund<br>[19-3-319, MCA] |
| **TRS** | **7.15%** [19-20-602, MCA] | [**9.85%** State & University<br>[19-20-605, MCA] | **0.11%** of members' salaries<br>[19-20-604, MCA]<br>**2.38%** contribution of the total earned compensation of school district and community college active members<br>[19-20-607, MCA] |

**Pension Plan Information**
**Schedules of Funding Progress**
*(in thousands)*

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability(AAL) Entry Age (b) | Unfunded (UAAL) (b-a) | Funded Ratio (a/b) | Annual Covered Payroll (c) | UAAL as Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| **Single Employer Systems** | | | | | | |
| **JRS** | | | | | | |
| 6/30/2010 | 61,277 | 42,513 | (18,764) | 144.14% | 5,687 | (329.95) |
| **HPORS (**1) | | | | | | |
| 6/30/2010 | 97,204 | 151,177 | 53,973 | 64.30% | 13,036 | 414.03% |
| **Multiple Employer Systems** | | | | | | |
| **PERS-DBRP** | | | | | | |
| 6/30/2010 | 3,889,890 | 5,241,819 | 1,351,929 | 74.21% | 1,083,780 | 124.74% |
| **SRS** | | | | | | |
| 6/30/2010 | 200,739 | 246,734 | 45,995 | 81.36% | 54,681 | 84.12% |
| **GWPORS** | | | | | | |
| 6/30/2010 | 85,151 | 113,855 | 28,704 | 74.79% | 39,436 | 72.79% |
| **MPORS** | | | | | | |
| 6/30/2010 | 217,545 | 380,393 | 162,847 | 57.19% | 37,220 | 437.53% |
| **FURS** | | | | | | |
| 6/30/2010 | 213,755 | 335,463 | 121,708 | 63.72% | 33,339 | 365.06% |
| **TRS** | | | | | | |
| 7/1/2010 | 2,956,600 | 4,518,200 | 1,561,600 | 65.44% | 747,000 | 209.00% |
| **Nonemployer Contributor** | | | | | | |
| **VFCA** | | | | | | |
| 6/30/2010 | 26,575 | 34,512 | 7,936 | 77.00% | N/A | N/A |

(1) The multiyear schedule of funding progress for the HPORS and JRS are presented in the Required Supplementary Information (RSI) following the notes to the financial statements.

**Pension Plan Information**
**Schedules of Employer Contributions and Other Contributing Entities**
*(in thousands)*

| System | Fiscal Year Ended June 30 | Annual Required Contributions | Percentage Contributed | Annual Required State Contribution | Percentage Contributed |
|---|---|---|---|---|---|
| **SINGLE EMPLOYER SYSTEMS:** | | | | | |
| **JRS (2)** | | | | | |
| **HPORS** | 2008 | 3,948 | 100.03% | 290 | 100.00% |
| | 2009 | 2,501 | (165.97%) | 286 | 100.00% |
| | 2010 | 3,404 | 139.93% | 287 | 100.00% |
| **MULTIPLE EMPLOYER SYSTEMS:** | | | | | |
| **PERS-DBRP** | 2008 | 68,165 | 105.98% | 378 | 100.00% |
| | 2009 | 99,314 | 76.35% | 357 | 100.00% |
| | 2010 | 132,004 | 60.46% | 537 | 100.00% |
| **SRS** | 2008 | 4,444 | 108.78% | | |
| | 2009 | 6,507 | 79.81% | | |
| | 2010 | 7,735 | 72.88% | | |
| **GWPORS** | 2008 | 2,541 | 117.23% | | |
| | 2009 | 3,491 | 94.31% | | |
| | 2010 | 4,918 | 73.45% | | |
| **MPORS** | 2008 | 4,637 | 111.19% | 9,452 | 100.00% |
| | 2009 | 3,455 | 146.35% | 10,186 | 100.00% |
| | 2010 | 3,897 | 176.04% | 10,932 | 100.00% |
| **FURS** | 2008 | 4,187 | 106.68% | 9,568 | 100.63% |
| | 2009 | 118 | 3,852.37% | 9,831 | 100.00% |
| | 2010 | 850 | 603.27% | 10,871 | 100.00% |
| **VFCA –** (Nonemployer Contributor) | | | | | |
| | 2008 | | | 1,562 | 100.00% |
| | 2009 | | | 1,580 | 100.00% |
| | 2010 | | | 1,575 | 100.00% |
| **TRS** | 2008 | 93,142 | 87.40% | | |
| | 2009 | 80,998 | 100.00% | | |
| | 2010 | 90,947 | 98.30% | | |

(1) The actuary valuations for 2008 and 2009 changed as a result of using a new actuary in 2010.
(2) The actuarial value of assets is greater than the actuarial accrued liabilities for FY2008-2010. The funding excess is large enough so that the sum of normal costs and the amortization of the funding excess is negative. Common actuarial practice is to set the ARC at zero.

**Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2010**

| Plan | Member's Highest Average Compensation (HAC) | Years of Service Required and/or Age Eligible for Benefit | Vesting |
|---|---|---|---|
| **PERS-DBRP** | Highest average compensation during any consecutive 36 months | Normal retirement:30 years, any age; Age 60, 5 years of service; or Age 65, regardless of service Early retirement, actuarially reduced: Age 50, 5 years of service; or Any age, 25 years of service | 5 years membership service |
| **MPORS** | Hired on or after 7/1/1977 – average monthly compensation of final year of service; hired on or after 7/1/1977 – final average compensation (FAC) for last consecutive 36 months | Normal retirement 20 years, regardless of age; Early retirement : age 50, 5 years of service | 5 years membership service |
| **FURS** | Hired prior to 7/1/1981 and not electing GABA – highest monthly compensation (HMC); hired on or after 7/1/81 and those electing GABA – highest average compensation (HAC) during any consecutive 36 months | Normal retirement; 20 years, regardless of age; Early retirement age 50, 5 years of service | 5 years membership service |
| **SRS** | Highest average compensation during any consecutive 36 months | Normal retirement; 20 years regardless of age, has attained normal retirement age; Early retirement age 50, 5 years of service, actuarially reduced | 5 years membership service |
| **HPORS** | Highest average compensation during any consecutive 36 months | Normal retirement; 20 years of membership service regardless of age, has attained normal retirement age; Early retirement age, 5 years of membership service, actuarially reduced from age 60 | 5 years membership service |
| **JRS** | Hired prior to July 1, 1997 and non-GABA prior to 1/1/1988 or 12/1/2005 – monthly compensation at time of retirement; hired on or after July 1, 1997 or electing GABA prior to 1/1/1988 or 12/1/2005 – HAC during any consecutive 36 months (relates directly to monthly benefit formula) | Normal retirement Age 60, 5 years of membership service; Involuntary retirement any age with 5 years of membership service – involuntary termination, actuarially reduced | 5 years membership service |
| **GWPORS** | Highest average compensation during any consecutive 36 months | Normal retirement Age 50, 20 years of membership service; Early retirement age 55, 5 years of membership service | 5 years membership service |
| **VFCA** | | Normal retirement Age 55, 20 years of credited service (full benefit); age 60, 10 years of service (partial benefit). As of 4/25/2005 (Senate Bill 197), members may retire with greater than 20 years of service, but not more than 30 years of service. | 10 years of service credit |
| **PERS-DCRP** | | Termination of service | Immediate for participant's contributions and attributable income; 5 years for employer's contributions to individual accounts and attributable income |
| **TRS** | Final average compensation during any consecutive 3 years. | Age 60, 5 years of service, or any age with at least 25 years of service. Vested employees may retire at or after age 50 and receive reduced benefits. | 5 years of membership service |

**Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2010** *(continued)*

| Plan | Monthly Benefit Formula | Guaranteed Annual Benefit Adjustment (GABA) | Minimum Benefit Adjustment (Non-GABA) |
|---|---|---|---|
| **PERS-DBRP** | (i) If less than 25 years of membership service, the greater of (a) 1/56 of HAC multiplied by years of service credit.<br><br>(ii) If 25 years of membership service or more, (a) 1/50 of HAC multiplied by years of service credit.<br><br>Early retirement: Normal retirement benefit calculated using HAC, and service at early retirement and reduce for each month which the retirement age precedes the earlier of age 60 or the attainment of 30 years of service by 0.5% for the first 60 months and 0.3% for the next 60 months | For retired members who have been retired at least 12 months, a Guaranteed Annual Benefit Adjustment (GABA) will be made each year equal to (i) 3% for members hired before July 1, 2007 and (ii) 1.5% for members hired on or after July 1, 2007. | |
| **MPORS** | Hired on or after July 1, 1977 2.5% of FAC multiplied by years of service credit | Hired after June 1, 1997, or those electing GABA - after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit. | If hired before July 1, 1997 and member did not elect GABA, the monthly retirement, disability or survivor's benefit may not be less than 1/2 the compensation of a newly confirmed police officer in the current fiscal year in the city or town from which the member was last employed. |
| **FURS** | Members hired prior to July 1, 1981 and not electing GABA are entitled to the greater of: 2.5% of HMC times year of service credit; or (1) if less than 20 years of service, 2% of HMC times year of service credit; or (2) if more than 20 years of service, 50% of the member's HMC plus years of service in excess of 20 times HMC times 2.0%. Members hired after 6/30/1981 and those electing GABA receive 2.5% of HAC per year of service credit. | For retired members who became active members on and after July 1, 1997 and those who elected to be covered under this provision and who have been retired at least 12 months, a Guaranteed Annual Benefit Adjustment (GABA) will be made each year equal to 3% | For retired members who were hired prior to July 1,1997and who did not elect GABA, the minimum monthly benefit is provided equal to 50% of the current base compensation of a newly confirmed active firefighter of the employer that last employed the member as a firefighter. (Provided the member has at least ten years of membership service) |
| **SRS** | 2.5% of HAC per year of service credit | For retired members who have been retired at least 12 months, a Guaranteed Annual Benefit Adjustment GABA equal to (i) 3% for members hired before July 1, 2007 and (ii) 1.5% for members hired on or after July 1, 2007.<br><br>. | |
| **HPORS** | 2.5% of HAC per year of service | For retired members who became active members on or after July 1, 1997 and those who elected to be covered under this provision and who have been retired at least 12 months, a Guaranteed Annual Benefit Adjustment (GABA) will be made each year equal to 3% | For retired members who were hired prior to July, 1 1997 and who did not elect GABA, the monthly benefits are increased each July when they fall below a statutorily guaranteed minimum. Any annual increase is limited to 5.0% over the current benefit and may not exceed 60% of the current base compensation of a probationary officer. |
| **JRS** | 3.1/3% per year of current salary or highest average compensation for the first 15 years of service credit and 1.785% per year of the current salary or highest average compensation for serve credit over 15 years | For retired members who became active members on and after July 1, 1997 and those who elected to be covered under this provision and who have been retired at least 12 months, a Guaranteed Annual Benefit Adjustment (GABA) will be made each year equal to 3%. | For retired members who were hired prior to July 1, 1997, and who did not elect GABA, the current salary of an active member in the same position is used to recalculate the monthly benefits |

| | | |
|---|---|---|
| **GWPORS** | 2.5% of HAC times year of service credit | For retired members who have been retired at least 12 months, a Guaranteed Annual Benefit Adjustment (GABA) will be made each year equal to (i) 3% for members hired before July 1, 2007 and (ii) 1.5% for members hired on or after July 1, 2007 |
| **VFCA** | $7.50 per month for each year of service credit, but not exceeding 30 years. Age 55 with 20 years of service credit or age 60 with 10 years of service credit. | |
| **PERS-DCRP** | Dependent upon individual account balance. Various payout options available, including taxable lump sums, periodic payments per participant direction, and IRS permitted rollovers. | |
| **TRS** | 1.6667% of average final compensation (AFC) per year of service | A guaranteed annual benefit adjustment (GABA) of 1.5% is payable each January if the retiree has received at least 36 monthly retirement benefit payments prior to January 1 of the year in which the adjustment is to be made. |

## NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

### A. General

The State of Montana and the Montana University System (MUS) provide optional postemployment health care benefits in accordance with Montana Code Annotated, Title 2, Chapter 18, Section, 704 to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees and dependents who retire under applicable retirement provisions, and (2) surviving dependents of deceased employees. Retirement eligibility criteria differ by retirement plan (See Note 6). Medical, dental, and vision benefits are available through this plan.

In accordance with Montana Code Annotated, Title 2, Chapter 18, Section, 704, the Montana University System (MUS) provides post-retirement health insurance benefits to employees who are eligible, to receive retirement benefits from the Teachers Retirement System, the Public Employees' Retirement System, or an annuity under the Optional Retirement Plan, and have been employed by the MUS for at least five years, are age 50, or have worked 25 years with the MUS. Spouses, unmarried dependent children, and surviving spouses are also eligible.

### B. Plan Description

Both the State of Montana and MUS are agent multiple employer plans. The participating employers under the State Plan are Facility Finance Authority, Housing Authority, Public Employees' Retirement System (PERS), Montana State Fund (New Fund), and Teachers' Retirement System (TRS). The participating employers under the MUS plan are Dawson Community College (Dawson CC), Flathead Valley Community College (Flathead CC), Miles Community College (Miles CC), Montana State University – Billings (MSU-Billings), Montana State University – Bozeman (MSU-Bozeman), Montana State University – Great Falls College of Technology (MSU-GFCOT), Montana State University – Northern (MSU-Northern), University of Montana – Montana Tech (UM-MT Tech), Office of Commissioner on Higher Education (OCHE), State Bar, University of Montana – Helena College of Technology (UM-HCOT), University of Montana – Missoula (UM-Missoula), and University of Montana – Western (UM-Western). Each participating employer is required by GASB Statement No. 43 to disclose additional information regarding funding policy, the employer's annual OPEB cost and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used.

Both of these plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of an "implied rate" subsidy in the related financial statements and footnotes. While this liability is disclosed for financial statement purposes, it does not represent a legal liability of the State or any of its component units.

Both plans are reported as agency funds. There are no assets or liabilities as only contributions collected and distributions made are reflected in these funds. See the funding policy that follows.

### C. Basis of Accounting

OPEB is recorded on an accrual basis for all enterprise and internal service funds as well as component units. OPEB is recorded on a modified accrual basis for the governmental funds. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

The plan document states "an employee enrolled in the State Plan who (a) is eligible to draw a state retirement benefit at the time he or she leaves active state employment; and (b) makes arrangements with the EBB (Employee Benefits Bureau) within 60 days of the date active employee coverage ends to continue post-retirement coverage, may continue with the state group on a self-pay basis, retroactive back to the date active employee coverage was lost." Therefore, the plan does not include terminated employees who have accumulated benefits but are not yet receiving them. There have been no significant changes in the number covered or the type of coverage as of June 30, 2010.

The number of state participants as of December 31, 2009 follows:

**State Plan Participants**

| Enrollment | State | Facility Finance Authority | Housing Authority | PERS | Montana State Fund (New Fund) | TRS | Total |
|---|---|---|---|---|---|---|---|
| Active employees | 12,047 | 3 | 27 | 32 | 269 | 16 | 12,394 |
| Retired employees, spouses, and surviving spouses (1) | 5,478 | - | 2 | - | 6 | - | 5,486 |
| Total | 17,525 | 3 | 29 | 32 | 275 | 16 | 17,880 |

(1) Due to the inability to determine, without considerable effort, the last place an employee worked before retiring, the bulk of retires are listed as State regardless of their last place of employment; however, on a forward going basis the last place an employee worked before retiring will be identifiable. Since we are unable to account for all retired employees last place of employment cumulatively an allocation method was used based on the accrued liability and ARC for active employees by component unit for the determination of the inactive liability by component unit.

The number of MUS participants as of June 30, 2010 follows.

**MUS Plan Participants**

| Enrollment | MSU-Billings | MSU-Bozeman | MSU-GFCOT | MSU-Northern | OCHE | UM-HCOT | UM-Missoula | UM-MT Tech | UM-Western | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Active employees | 480 | 2,726 | 124 | 189 | 101 | 78 | 2,280 | 385 | 169 | 283 | 6,815 |
| Retired employees, spouses, and surviving spouses | 175 | 911 | 25 | 90 | 23 | 26 | 687 | 150 | 93 | 79 | 2,259 |
| Total | 655 | 3,637 | 149 | 279 | 124 | 104 | 2,967 | 535 | 262 | 362 | 9,074 |

## D. Funding Policy

The State of Montana and MUS pay for postemployment health care benefits on a pay-as-you-go basis. Montana Code Annotated, Title 2, Chapter 18, Part 8 gives authority for establishing and amending the funding policy to the Department of Administration.

As of June 2010, the State plan's administratively established retiree medical premiums vary between $260 and $916 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between $34.10 and $58.00 and vision premiums vary between $7.64 and $22.26 depending on the coverage selected.

The MUS plan's administratively established retiree medical premiums vary between $221 and $778 per month and are revised annually. The plan provides different coinsurance amounts depending on whether members use preferred, non-preferred, or other hospitals. After an annual $600 deductible for most non-Medicare-eligible retirees, the MUS plan reimburses 75% for the first $1,250 in medical claims and 100% thereafter. There is an optional $1,500 deductible plan available to retirees with a reduced premium. After the $1,500 annual deductible, the plan pays 75% of the first $2,500 and 100% thereafter. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. As of June 30, 2010, 1,436 retirees (policyholders) were enrolled in the MUS plan.

## E. Annual Other Postemployment Benefit Cost and Contributions

The annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement No. 45, represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The current State's ARC of $33.986 million is 6.45% of annual covered payroll. The State's annual covered payroll is $526.794 million. The current MUS's ARC of $19.290 million is 4.99% of annual covered payroll. The MUS's annual covered payroll is $386.571 million.

There are no long-term contracts for contributions to either plan. Contributions refer to contributions made in relation to the ARC. Since the State and MUS do not fund their plans, no contributions were made.

The following table presents the OPEB cost for the year, the amount contributed, and changes in the OPEB plan for fiscal year 2010 (in thousands): (Please note that the amounts in the State and MUS include some component unit portions and therefore, will not match the Statement of Net Assets.)

**Annual OPEB Cost**

| | State | MUS |
|---|---|---|
| Annual required contribution/OPEB cost | $33,986 | $19,290 |
| Interest on net OPEB obligation | 3,607 | 1,505 |
| Annual OPEB cost | 37,593 | 20,795 |
| Contributions made | - | - |
| Increase in net OPEB obligation | 37,593 | 20,795 |
| Net OPEB obligation – beginning of year | 84,869 | 35,401 |
| Net OPEB obligation – end of year | $122,462 | $56,196 |

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2010 through 2008 was as follows (in thousands):

**Contribution Ratio**

| | Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|---|
| **State** | 6/30/2010 | $33,986 | 0% | $122,462 |
| | 6/30/2009 | 41,551 | 0% | 84,869 |
| | 6/30/2008 | 41,551 | 0% | 41,551 |
| **MUS** | 6/30/2010 | 19,290 | 0% | 56,196 |
| | 6/30/2009 | 17,332 | 0% | 35,401 |
| | 6/30/2008 | 17,332 | 0% | 17,332 |

## F. Actuarial Methods and Assumptions

As of December 31, 2009, the State's actuarially accrued liability (AAL) for benefits was $357.664 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $357.664 million, and the ratio of the UAAL to the covered payroll was 67.89%. The UAAL is being amortized as a level dollar amount over an open basis for 30 years.

In the December 31, 2009, actuarial valuation, the projected unit credit funding method was used for the State. The actuarial assumptions included a 4.25% discount rate and a 2.50% payroll growth rate. The projected annual healthcare cost trend rate is 10.00% for medical and 9.50% for prescription drugs, initially. Both medical costs and prescription drugs are reduced by decrements to a rate of 5.00%, medical costs after six years and prescription drugs after seven years.

As of June 30, 2010, the MUS actuarially accrued liability (AAL) for benefits was $183.230 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $183.230 million, and the ratio of the UAAL to the covered payroll was 47.40%. The UAAL is being amortized as a level dollar amount over an open basis for 30 years.

In the June 30, 2010, actuarial valuation, the projected unit credit funding method was used for MUS. The actuarial assumptions included a 4.25% discount rate and a 2.50% payroll growth rate. The projected annual healthcare cost trend rate is 10.00% for medical and 9.50% for prescription drugs, initially. Both medical costs and prescription drugs are reduced by decrements to a rate of 5.00%, medical costs after six years and prescription drugs after seven years.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations, and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

Projections of benefits for financial reporting progress are based on the substantive plan (the plan as understood by the employer and the plan members), and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

### G. Termination Benefits

During the year ended June 30, 2010, the State made the following termination benefit arrangements: continued coverage of group health insurance benefits for five employees provided for up to six months and one-time incentive payments for six employees. In determining termination benefit liability related to the continued coverage of group health insurance benefits, it was assumed that these benefits would be paid for the entire six month period.

During the year ended June 30, 2010, Component Units of the State made the following termination benefit arrangements: continued coverage of health insurance benefits for four employees provided for up to six months and an additional one-time incentive payment to three of those four employees.

During the year ended June 30, 2010, the cost of termination benefits was $95,868 and $45,357 for the State and its Component Units, respectively.

Additional information as of the latest actuarial valuation for the State follows:

**Other Postemployment Benefits**
**State Agent Multiple Employer Plan**

| | Retiree/Surviving Spouse | Spouse |
|---|---|---|
| Contributions (in thousands) | | |
| Before Medicare eligibility | $7,120 | $2,146 |
| After Medicare eligibility | 2,741 | 1,956 |
| Actuarial valuation date | 1/1/2009 (ARC calculated through December 31, 2009) | |
| Actuarial cost method | Projected unit credit funding | |
| Amortization method | Level percent of payroll, open | |
| Remaining amortization period | 30 years | |
| Asset valuation method | Not applicable since no assets meet the definition of plan assets under GASB 43 or 45 | |
| Actuarial assumptions: | | |
| Discount rate | 4.25% | |
| Projected payroll increases | 2.50% | |
| Participation | | |
| Future retirees | 55% | |
| Future eligible spouses | 60% | |
| Marital status at retirement | 70.0% | |

Additional information as of the latest actuarial valuation for MUS follows:

**Other Postemployment Benefits**
**MUS Agent Multiple Employer Plan**

| | Retiree/Surviving Spouse | Spouse |
|---|---|---|
| Contributions (in thousands) | | |
| Before Medicare eligibility | $5,611 | $1,777 |
| After Medicare eligibility | 3,059 | 1,297 |
| Actuarial valuation date | 7/1/2009 (ARC Calculated through June 30, 2010) | |
| Actuarial cost method | Projected unit credit funding | |
| Amortization method | Level percent of payroll, open | |
| Remaining amortization period | 30 years | |
| Asset valuation method | Not applicable since no assets meet the definition of plan assets under GASB 43 or 45 | |
| Actuarial assumptions: | | |
| Discount rate | 4.25% | |
| Projected payroll increases | 2.50% | |
| Participation | | |
| Future retirees | 55% | |
| Future eligible spouses | 60% | |
| Marital status at retirement | 70.0% | |

## NOTE 8. RISK MANAGEMENT

There are three primary government public entity risk pools and one claims-servicing pool that are reported within the enterprise fund. These pools include Hail Insurance, the Montana University System (MUS) Group Benefits Plan, the MUS Workers Compensation funds, and the Subsequent Injury claims-servicing pool. The two component unit pools include Montana State Fund (New Fund) and Montana State Fund (Old Fund). Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. The primary government reports its own risk management activity within two internal service funds: Group Employees Comprehensive Medical and Dental Plan and Property and Casualty Insurance Plans. In all of these funds, there are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage for the last three years. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock, except for the Montana State Funds' funds. Investments are recorded at fair value. Premiums and discounts are amortized using the straight-line method over the life of the securities.

### A. Public Entity Risk Pools

**(1) Hail Insurance** – Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the Hail Insurance program. The Hail Insurance program issued 2,179 policies during the 2010 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a premium refund. Anticipated investment income is considered in computing a premium deficiency, of which there is none.

A claim must be submitted to the State Board of Hail Insurance within 14 days of a loss occurrence. The claim must indicate whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas, or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt. The liability on all insured crops expires after October 1. The insurance only covers loss or damage to growing grain that exceeds 5% destruction by hail.

The fund recorded a liability of $237,807 based on estimated claims through June 30, 2010. Any crop insurance liability is paid to producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance, reinsurance, or annuity contracts.

**(2) Montana University System (MUS) Group Benefits Plan** – This plan was authorized by the Board of Regents to provide medical, dental, and vision insurance coverage to employees of the Montana University System and affiliates, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured, except for life insurance, long-term care, long-term disability, accidental death and dismemberment, and vision insurance. Allegiance Benefit Plan Management is the claims administrator for the self-insured indemnity plan and a managed care plan. New West Health Services, Blue Cross and Blue Shield of Montana, and Peak administer claims for the three other managed care plans. Allegiance has a contract for utilization management; the utilization management program consists of hospital pre-authorization and medical necessity review. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance Enterprise Fund. The claims liability is calculated by Actuaries Northwest and estimated to be $6,600,000 as of June 30, 2010, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

**(3) Montana University System (MUS) Workers Compensation Program** – This fund was formed to provide self-insured workers compensation coverage for employees of the Montana University System. The Montana University System Board of Regents provides workers compensation coverage under Compensation Plan Number One (Title 39, Chapter 71, Part 2101, MCA). The program is self-insured for workers compensation claims to a maximum of $500,000 per each occurrence; $1,000,000 maximum per each aircraft related occurrence. Losses in excess of $500,000/$1,000,000 are covered by reinsurance with a commercial carrier. Employer's liability claims are covered to a maximum of $1,000,000 above the self-insured amount of $500,000. During fiscal year 2010, the program ceded $267,287 in premiums to reinsurers.

Premium rates for all participating campuses are established by the MUS Workers Compensation Program Committee based on actuarial calculations of premium need and premium rate. Premium rates are adjusted periodically based on inflation, claims experience, and other factors. Premiums are recorded as revenue in the MUS Workers Compensation Program in the period for which coverage is provided. Members may be subject to supplemental assessments in the event of deficiencies. The program considers anticipated investment income in determining if a premium deficiency exists.

The fund recorded a liability of $8,801,000 for estimated claims at June 30, 2010. The liability is based on the estimated ultimate cost of settling the reported and unreported claims, and claims reserve development including the effects of inflation and other societal and economic factors. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Estimated claims liabilities are recomputed periodically based on current review of claims information, experience with similar claims, and other factors. Adjustments to estimated claims liabilities are recorded as an increase or decrease in claims expense in the period the adjustments are made.

**(4) Subsequent Injury** – This fund provides benefits to certified disabled workers who are subsequently injured on the job and entitled to benefits under the Workers Compensation Act at the time of the subsequent injury. The liability of the insurer for payment of compensation benefits is limited to 104 weeks of benefits actually paid. This fund will reimburse the insurer for all benefits paid after this 104-week time period.

Workers compensation insurance premium experience modification factors are influenced only by the two-year limitation. This fund provides employers with a potential incentive for hiring a person with a certified disability.

This fund makes no provision for insured events of the current year. All Montana insurers are annually assessed a percentage of their paid losses sufficient to cover paid losses reimbursed from the fund in the preceding fiscal year and the expenses of administration, less other income. An estimated liability is recorded based on a projected cost analysis total population of registered Subsequent Injury Fund participants. As of June 30, 2010, the amount of this liability was estimated to be $3,211,625. Since each insurer is responsible for its own claim liabilities, the pool is acting as a claims service and there is no transfer or pooling of risk.

**(5) State Fund (New Fund)** – This fund provides liability coverage to employers for injured employees who are insured under the Workers Compensation and Occupational Disease Acts of Montana and workers compensation claims occurring on or after July 1, 1990. The New Fund is a self-supporting, competitive State fund, and functions as the guaranteed market. At June 30, 2010, approximately 25,253 employers were insured with the New Fund. Anticipated investment income is considered for computing a premium deficiency, and employers must pay premiums to the New Fund within specified time frames.

An actuarial study prepared by Towers Watson, as of June 30, 2010, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. Due to the fact that actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. As of June 30, 2010, $838,765,340 of unpaid claims and claim adjustment expenses were presented at face value. When the New Fund purchases annuity contracts, the claim is settled in full and on a final basis, and all liability of the New Fund is terminated.

Acquisition costs represent costs associated with the acquisition of new insurance contracts or renewal of existing contracts and include agent commissions and expenses incurred in the underwriting process. New Fund acquisition costs are capitalized and amortized ratably over the subsequent year. The amount of capitalized acquisition costs for the fiscal year ended June 30, 2010, was $4,419,722.

MCA 39-71-2311 requires the New Fund set premiums at least annually at a level sufficient to insure adequate funding of the insurance program during the period the rates will be in effect. It also requires the New Fund to

establish a minimum surplus above risk-based capital requirements to secure the New Fund against risks inherent in the business of insurance.

For the fiscal year ended June 30, 2010, the New Fund ceded premiums to other reinsurance companies to limit the exposure arising from large losses. These arrangements consist of excess of loss contracts that protect against individual occurrences over stipulated amounts, and an aggregate stop loss contract which protects the New Fund against the potential that aggregate losses will exceed expected levels expressed as a percentage of premium. For fiscal year 2010, the excess of loss contract provides coverage up to $100 million in which New Fund retains the first $5 million for the first layer of reinsurance coverage. The excess of loss protection applies to an individual occurrence with the maximum of $5 million on any one life.

The term of the current aggregate stop loss contract was July 1, 2008 through June 30, 2011. The contract provides coverage based on the New Fund's premium levels at a maximum of $45 million per year and a minimum of $36.6 million, but in aggregate not to exceed 100.0% of the sum of the annual limits for all contract years. In the event reinsurers are unable to meet their obligations, under either the excess of loss contracts or the aggregate stop loss contract, the New fund would remain liable for all losses, as the reinsurance agreements do not discharge the New Fund from its primary liability to the policyholders.

Premium revenue was reduced by premiums paid for reinsurance coverage of $13.2 million in fiscal year 2010.

Estimated claim reserves were reduced by $7.4 million for fiscal year 2010 for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the excessive loss reinsurance contract. In fiscal year 2010, estimated claim reserves were reduced by an additional $12.0 million for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due the aggregate stop loss contract.

**(6) State Fund (Old Fund)** – The liability and payment of workers compensation claims for incidents occurring before July 1, 1990, are reported in the Old Fund.

An actuarial study prepared by Towers Watson, as of June 30, 2010, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. At June 30, 2010, $71,136,458 of unpaid claims and claim adjustment expenses was reported at a net present value of $57,994,103, discounted at a 3.5% rate.

**(7) Changes in Claims Liabilities for the Past Two Years** – As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

| | Primary Government | | | | | |
|---|---|---|---|---|---|---|
| | Hail Insurance | | MUS Group Benefits | | MUS Workers Compensation Program | |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Unpaid claims and claim adjustment expenses at beginning of year | $ 354 | $ 3,475 | $ 6,900 | $ 6,500 | $ 7,733 | $ 6,357 |
| Incurred claims and claim adjustment expenses: provision for insured events of the current year | 3,961 | 2,601 | 67,096 | 60,296 | 2,959 | 2,922 |
| Increase (decrease) in provision for Insured events of prior years | (255) | (2,009) | - | - | 256 | 22 |
| Total incurred claims and claim adjustment expenses | 3,706 | 592 | 67,096 | 60,296 | 3,215 | 2,944 |
| Payments: | | | | | | |
| Claims and claim adjustment expenses attributable to insured events of the current year | (3,723) | (2,248) | (67,396) | (59,896) | (572) | (641) |
| Claims and claim adjustment expenses attributable to insured events of prior years | (99) | (1,465) | - | - | (1,575) | (927) |
| Total payments | (3,822) | (3,713) | (67,396) | (59,896) | (2,147) | (1,568) |
| Total unpaid claims and claim adjustment expenses at end of year | $ 238 | $ 354 | $ 6,600 | $ 6,900 | $ 8,801 | $ 7,733 |

**Component Units**

| | Montana State Fund (New) 2010 | Montana State Fund (New) 2009 | Montana State Fund (Old) 2010 | Montana State Fund (Old) 2009 |
|---|---|---|---|---|
| Unpaid claims and claim adjustments expenses at beginning of year | $ 813,305 | $ 752,253 | $ 79,163 | $ 86,733 |
| Incurred claims and claim adjustment expenses: | | | | |
| Provision for insured events of the current year | 144,893 | 151,964 | - | - |
| Increase (decrease) in provision for insured events of prior years | 8,202 | 30,842 | 1,102 | 3,171 |
| Total incurred claims and claim adjustment expenses | 153,095 | 182,807 | 1,102 | 3,171 |
| Payments: | | | | |
| Claims and claim adjustment expenses attributable to insured events of the current year | (25,478) | (28,062) | - | - |
| Claims and claim adjustment expenses attributable to insured events of prior years | (102,157) | (93,693) | (9,129) | (10,741) |
| Total payments | (127,635) | (121,755) | (9,129) | (10,741) |
| Total unpaid claims and claim adjustment expenses at end of year | $ 838,765 | $ 813,305 | $ 71,136 | $ 79,163 |

## B. Entities Other Than Pools

**(1) Employee Group Benefits** – The medical and dental health plans provided by the State are fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees, former employees covered by COBRA benefits, and their dependents. The State contracts with Blue Cross/Blue Shield, PEAK, New West, and MedImpact for administration of its self-insured plans. Premiums are collected through payroll deductions, deductions through the Public Employees Retirement Administration, the Legislative Branch, and self-payments, and are recorded as revenue in the Employee Group Benefits Internal Service Fund. At June 30, 2010, estimates for claims liabilities, which include both incurred but not reported claims and grandfathered claims resulting from a 1998 change in period for which the benefit coverage is available, as well as other actuarially determined liabilities, were $13,010,000 based on a formula provided by Actuaries Northwest, a consulting actuarial firm, of which $11,318,700 is estimated to be paid in fiscal year 2011.

**(2) Administration Insurance Plans** – This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, foster care liability, and state-administered foreclosure of housing units. The State self-insures the $500,000 deductible per occurrence for most property insurance, as well as various deductible amounts for other state property. The State also self-insures against losses of property below $500,000 of value, with state agencies paying the first $1,000. Commercial property insurance protects approximately $4.5 billion of state-owned buildings and contents. The State's property insurance includes separate earthquake and flood protection coverage, with deductibles of $500,000 for earthquake and $500,000 for flood per occurrence. Premiums are collected from all state agencies, including component units, and recorded as revenue in the Administration Insurance Internal Service Fund.

An annual actuarial study, prepared by Towers Watson Company, and issued for the accident period July 1, 2000 through June 30, 2010, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 2010, estimated claims liability was $16,673,977.

**(3) Changes in Claims Liabilities for the Past Two Years** – These funds establish liabilities for both reported and incurred, but not reported, claims. Grandfathered claims are not included as they relate to future claims not yet incurred. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands). Note: figures for Group Employee Benefits for 2009 have been revised to exclude grandfathered claims previously included.

| | Group Employees Benefits | | Administration Insurance | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Amount of claims liabilities at the beginning of each fiscal year | $ 11,960 | $ 9,070 | $14,956 | $16,498 |
| Incurred claims: | | | | |
| Provision for insured events of the current year | 123,941 | 117,000 | 5,333 | 5,548 |
| Increases (decreases) in provision for insured events of prior years | (2,425) | 1,591 | 1,311 | 1,182 |
| Total incurred claims | 121,516 | 118,591 | 6,644 | 6,730 |
| Payments: | | | | |
| Claims attributable to insured events of the current year | (111,462) | (104,882) | (1,223) | (1,483) |
| Claims attributable to insured events of prior years | (10,554) | (10,819) | (3,703) | (6,789) |
| Total payments | (122,016) | (115,701) | (4,926) | (8,272) |
| Total claims liability at end of each fiscal year | $ 11,460 | $ 11,960 | $16,674 | $14,956 |

## NOTE 9. COMMITMENTS

### A. Highway Construction

At June 30, 2010, the Department of Transportation had contractual commitments of approximately $261.1 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matching state special revenue funds.

### B. Capital Construction

At June 30, 2010, the Department of Administration, Architecture & Engineering Division, had commitments of approximately $23 million for capital projects construction. The primary government will fund $21.8 million of these projects, with the remaining $1.2 million coming from the state university system.

### C. Coal Tax Loan and Mortgage Commitments

The Board of Investments (BOI) makes firm commitments to fund loans from the Coal Severance Tax Permanent Trust Fund. These commitments have expiration dates and may be extended according to BOI policies. As of June 30, 2010, the BOI had committed, but not yet purchased, $28,712,720 in loans from Montana lenders. In addition to the above commitments, lenders had reserved $24,002,450 for loans as of June 30, 2010.

The BOI makes reservations to fund mortgages from the Public Employees' and Teachers' retirement funds. As of June 30, 2010, there were no mortgage reservations. Effective December 1, 2005, all BOI residential mortgage purchases are processed by the Montana Board of Housing (MBOH). The MBOH does not differentiate between a mortgage reservation and a funding commitment.

### D. Department of Corrections Bond Commitments

At June 30, 2010, the outstanding tax-exempt bonds issued by the Montana Facility Authority were issued in the amount of $30,946,981. These bonds have been issued to treatment and prerelease centers. The Department of Corrections agrees to provide payment on behalf of the contractors for the total principle and interest payments in regard to these outstanding bonds.

### E. Proprietary Fund Commitments

Budgets are administratively established in the enterprise and internal service funds, excluding depreciation, compensated absences, and bad debt expense. Appropriations may be committed for goods/services that are not received as of fiscal year-end. These executory commitments are included in unrestricted net assets in the accompanying financial statements as follows (in thousands):

| | Amount |
|---|---|
| **Enterprise funds** | |
| Other | 2 |
| Liquor Warehouse | 151 |
| Historical Society Pubs | 1 |
| Surplus Property | 1 |
| Subtotal-Enterprise funds | $ 155 |
| **Internal service funds** | |
| Highway Equipment | $ 827 |
| Buildings & Grounds | 246 |
| Information Technology Services | 1,012 |
| Administration Supply | 118 |
| Commerce Central Services | 4 |
| Administration Insurance | 3 |
| Other Internal Services | 116 |
| FWP Equipment | 37 |
| SABHRS Finance & Budget Bureau | 10 |
| Employee Group Benefits | 3 |
| Labor Central Services | 66 |
| Other Information Services | 30 |
| Subtotal-Internal service funds | $ 2,472 |
| Total | $ 2,627 |

## F. Encumbrances

As of June 30, 2010, the State of Montana encumbered expenditures as presented by in the table below (in thousands):

| | General Fund | State Special Revenue Fund | Federal Special Revenue Fund | Nonmajor Governmental Funds | Total |
|---|---|---|---|---|---|
| Encumbrances | $ 11,986 | $ 30,609 | $ 24,569 | $ 2,819 | $ 69,983 |

## NOTE 10. LEASES/INSTALLMENT PURCHASES PAYABLE

The State has entered into various capital and operating leases for land, buildings, equipment, and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected, in the normal course of operations, that most of these leases will be replaced by similar leases.

### A. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2010, were as follows (in thousands):

| Fiscal Year Ending June 30 | Primary Government - Governmental Activities | Discretely Presented Component Units |
|---|---|---|
| 2011 | $ 988 | $143 |
| 2012 | 865 | 94 |
| 2013 | 366 | 42 |
| 2014 | 140 | 17 |
| 2015 | 100 | 4 |
| 2016-2020 | 81 | - |
| Total minimum pmts | 2,540 | 300 |
| Less: interest | (100) | (30) |
| Present value of minimum payments | $2,440 | $270 |

Assets acquired under capital leases for the primary government by asset class were as follows (in thousands):

| Asset Class | Primary Government |
|---|---|
| Buildings | $ 703 |
| Equipment | 3,976 |
| Less: Accum Depreciation | (1,437) |
| Net Book Value | $3,242 |

### B. Operating Leases

Primary government rental payments for operating leases in fiscal year 2010 totaled $20,796,000. Future rental payments under operating leases are as follows (in thousands):

| Fiscal Year Ending June 30 | Primary Government | Discretely Presented Component Units |
|---|---|---|
| 2011 | $ 20,246 | $ 4,020 |
| 2012 | 17,722 | 3,570 |
| 2013 | 17,029 | 3,450 |
| 2014 | 15,942 | 3,297 |
| 2015 | 12,946 | 3,074 |
| 2016-2020 | 35,200 | 9,301 |
| 2021-2025 | 6,881 | 1,176 |
| Thereafter | 725 | 3,528 |
| Total future rental payments | $126,691 | $31,416 |

## NOTE 11. STATE DEBT

### A. General Information

The State has no constitutional limit on its power to issue obligations or incur debt, other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. No state debt shall be created unless authorized by a two-thirds vote of the members of each house of the legislature or a majority of the electors voting thereon. The Board of Examiners (consisting of the Governor, Secretary of State, and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

### B. Short-term Debt

The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. No notes may be issued to refund outstanding notes.

The State issued two bond anticipation notes during fiscal year 2010 that pertain to irrigation and water. The proceeds were used to loan funds to local governments to rehabilitate irrigation systems and a rehabilitate a water system. The two revenue anticipation notes the State issued during fiscal year 2009 that were active during fiscal year 2010 pertain to drinking water and wastewater. The revenue anticipation notes were issued to match Environmental Protection Agency capitalization grants. The proceeds were used to loan funds to local governments, to construct and rehabilitate drinking water and wastewater systems. The following schedule summarizes the activity for the year ended June 30, 2010 (in thousands):

| | Beginning Balance | Additions | Reductions | Ending Balance |
|---|---|---|---|---|
| **RANs** | | | | |
| Drinking Water – 2009B | 1,900 | 0 | 1,900 | 0 |
| Waste Water – 2009C | 500 | 0 | 500 | 0 |
| **BANs** | | | | |
| Irrigation – 2009A | 0 | 1,556 | 0 | 1,556 |
| Irrigation – 2009B | 0 | 388 | 0 | 388 |

The Board of Investments (BOI) of the State of Montana is authorized to issue Intermediate Term Capital (INTERCAP) bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate more than $190 million as amended by the 2007 Legislature. The purpose of the bonds is to provide funds for the BOI to make loans to eligible government units. The bonds are limited obligations of the BOI, payable solely from (1) repayments of principal and interest on loans made by the BOI to participating eligible governmental units, (2) investment income under the indenture, and (3) an irrevocable pledge by the BOI. The BOI has no taxing power. Bondholders may elect to have their bonds purchased by the trustee on March 1 of each year until maturity. These issues are considered to be demand bonds and are included in short-term debt. The amounts issued and outstanding at June 30, 2010, were as follows (in thousands):

| Series | Amount Issued | Balance June 30, 2010 |
|---|---|---|
| 1997 | 10,000 | $ 9,355 |
| 1998 | 12,500 | 12,010 |
| 2000 | 15,000 | 14,680 |
| 2003 | 15,000 | 14,710 |
| 2004 | 18,500 | 18,370 |
| 2007 | 15,000 | 14,950 |
| 2010 | 12,000 | 12,000 |
| Total | | $96,075 |

The following schedule summarizes the activity relating to the demand bonds during the year ended June 30, 2010 (in thousands):

| | Beginning Balance | Additions | Reductions | Ending Balance |
|---|---|---|---|---|
| Demand bonds | $88,620 | $12,000 | $4,545 | $96,075 |

## C. Long-term Debt

The full faith, credit, and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees, and assets of the State and the various colleges and universities. Primary government bonds and notes outstanding at June 30, 2010, were as follows (in thousands):

| Governmental Activities | Series | Amount Issued | Interest Range (%) (1) | Principal Payments Fiscal Year 2011 | Principal Payments In Year of Maturity (2) | Balance June 30, 2010 |
|---|---|---|---|---|---|---|
| **General obligation bonds** | | | | | | |
| Wastewater Treatment Works Revolving Fund (3) | 1998A | $ 3,510 | 3.75-5.15 | $ 565 | 565 (2011) | $ 565 |
| Drinking Water Revolving Fund (3) | 1998F | 3,065 | 3.6-4.85 | 160 | 230 (2019) | 1,745 |
| Drinking Water Revolving Fund (3) | 2000A | 2,990 | 4.25-5.6 | 135 | 135 (2011) | 135 |
| Water Pollution Control Revolving Fund (3) | 2000B | 3,325 | 4.25-5.6 | 155 | 155 (2011) | 155 |
| Long-Range Bldg Program | 2000C | 17,195 | 5.0-5.55 | 800 | 800 (2011) | 800 |
| Long-Range Bldg Program | 2001B | 11,430 | 4.1-5.75 | 510 | 535 (2012) | 1,045 |
| Information Technology | 2001C | 1,600 | 3.85-4.2 | 185 | 185 (2011) | 185 |
| Energy Conservation Program (5) | 2001D | 1,250 | 3.85-4.2 | 145 | 145 (2011) | 145 |
| Drinking Water Revolving Fund (3) | 2001G | 3,190 | 4.0-5.0 | 145 | 145 (2011) | 145 |
| Water Pollution Control Revolving Fund (3) | 2001H | 2,690 | 4.0-5.0 | 120 | 120 (2011) | 120 |
| Long-Range Bldg Program | 2002B | 10,475 | 3.35-4.7 | 495 | 730 (2023) | 7,485 |
| Hard Rock Mining Reclamation | 2002C | 2,500 | 3.5-4.7 | 105 | 200 (2023) | 1,900 |
| Long-Range Bldg Program | 2003A | 9,730 | 2.37-4.0 | 445 | 655 (2024) | 7,335 |
| Energy Conservation Program (5) | 2003B | 1,250 | 2.0-3.0 | 130 | 145 (2014) | 550 |
| Renewable Resource Program Refunding (4) | 2003C | 1,970 | 1.45-5.25 | 65 | 90 (2019) | 685 |
| Water Pollution Control Revolving Fund (3) | 2003D | 2,730 | 2.0-3.1 | 175 | 190 (2014) | 730 |
| Drinking Water Revolving Fund (3) | 2003E | 1,675 | 2.0-3.1 | 105 | 115 (2014) | 440 |
| Long-Range Bldg Program Refunding | 2003G | 26,610 | 2.0-5.0 | 1,815 | 2,310 (2017) | 14,320 |
| Water Pollution Control Revolving Fund (3) | 2004A | 2,665 | 2.0-3.8 | 165 | 185 (2015) | 870 |
| Long-Range Bldg Program | 2004B | 3,125 | 3.0-4.75 | 170 | 170 (2025) | 2,335 |
| Long-Range Bldg Program Refunding | 2005A | 14,945 | 3.0-5.25 | 1,290 | 1,205 (2019) | 13,200 |
| Long-Range Bldg Program | 2005B | 1,670 | 3.25-4.3 | 65 | 120 (2026) | 1,435 |
| Energy Conservation Program (5) | 2005C | 2,500 | 3.25-4.0 | 245 | 290 (2016) | 1,600 |
| CERCLA Program (6) | 2005D | 2,000 | 3.25-4.3 | 80 | 140 (2026) | 1,715 |
| Drinking Water Revolving Fund (3) | 2005F | 3,875 | 4.0-4.75 | 225 | 350 (2021) | 3,090 |
| Water Pollution Control Revolving Fund (3) | 2005G | 2,110 | 4.0-4.75 | 120 | 190 (2021) | 1,675 |
| Long-Range Bldg Program Refunding | 2005H | 10,055 | 3.0-5.0 | 50 | 1,300 (2020) | 9,750 |
| Long-Range Bldg Program | 2006A | 31,350 | 4.0-5.0 | 1,410 | 1,930 (2027) | 27,690 |
| Energy Conservation Program (5) | 2006B | 3,750 | 4.0-6.0 | 210 | 330 (2022) | 3,210 |
| CERCLA Program (6) | 2006C | 1,000 | 4.0 | 95 | 120 (2017) | 745 |
| Renewable Resource Program (4) | 2006D | 950 | 5.6-6.0 | 50 | 90 (2022) | 825 |
| Long-Range Bldg Program Refunding | 2007A | 16,740 | 4.25-5.0 | 1,785 | 2,465 (2018) | 16,740 |

| | | | | Principal Payments | | |
|---|---|---|---|---|---|---|
| **Governmental Activities** | **Series** | **Amount Issued** | **Interest Range (%)** (1) | **Fiscal Year 2011** | **In Year of Maturity** (2) | **Balance June 30, 2010** |
| Long-Range Bldg Program | 2007D | 11,720 | 4.375-4.75 | 425 | 3,865 (2028) | 10,930 |
| Long-Range Bldg Program | 2008D | 3,100 | 3.375-4.35 | 110 | 220 (2028) | 2,785 |
| Long-Range Bldg Program Refunding | 2010A | 20,220 | 2.0-4.0 | 3,200 | 710 (2021) | 20,220 |
| Drinking Water Revolving Fund Refunding (3) | 2010B | 5,400 | 2.0-4.0 | 70 | 110 (2026) | 5,400 |
| Water Pollution Control Revolving Fund Refunding (3) | 2010C | 6,450 | 2.0-4.0 | 65 | 210 (2026) | 6,450 |
| Total general obligation bonds | | $250,810 | | $16,085 | | $169,150 |
| **Special revenue bonds** | | | | | | |
| State Hospital Project (7) | 1997 | $ 25,915 | 4.0-5.05 | $ 1,065 | 1,820 (2022) | $ 16,930 |
| Renewable Resource Program (8) | 1997B | 2,660 | 3.75-5.37 | 145 | 170 (2014) | 625 |
| Renewable Resource Program (8) | 2001A | 420 | 3.65-5.59 | 20 | 30 (2021) | 275 |
| Renewable Resource Program (8) | 2001B | 1,750 | 5.2-7.1 | 80 | 150 (2021) | 1,225 |
| Renewable Resource Program Refunding (8) | 2001C | 12,155 | 2.55-4.3 | 720 | 790 (2013) | 2,265 |
| Broadwater Power Proj Refunding (8) | 2001D | 21,450 | 2.25-4.7 | 1,340 | 1,795 (2018) | 12,405 |
| Renewable Resource Program (8) | 2001E | 885 | 2.1-4.85 | 40 | 65 (2022) | 610 |
| Renewable Resource Program (8) | 2001F | 900 | 3.3-6.2 | 40 | 75 (2022) | 655 |
| Developmental Center Project Refunding (7) | 2003 | 11,510 | 3.0-5.0 | 690 | 970 (2019) | 7,365 |
| Renewable Resource Program (8) | 2003A | 3,000 | 1.05-4.05 | 125 | 215 (2024) | 2,305 |
| Renewable Resource Program (8) | 2004B | 430 | 4.45-5.45 | 25 | 40 (2020) | 320 |
| U.S. Highway 93 GARVEES (9) | 2005 | 122,795 | 3.65-5.19 | 7,320 | 11,315 (2020) | 91,645 |
| U.S. Highway 93 GARVEES (9) | 2009 | 44,670 | 3.5-5.0 | 2,420 | 3,925 (2023) | 39,945 |
| Total special revenue bonds | | $248,540 | | $ 14,030 | | $176,570 |
| **Notes payable** | | | | | | |
| Water Conservation (Little Dry Project) (10) | | $ 50 | 5.0 | $ 3 | 1 (2012) | $ 4 |
| Water Conservation (Petrolia Project) (10) | | 50 | 5.0 | 2 | 2 (2016) | 14 |
| Middle Creek Dam Project (11) | | 3,272 | 8.125 | 56 | 209 (2034) | 2,586 |
| Tongue River Dam Project (12) | | 11,300 | - | 290 | 290 (2038) | 8,113 |
| Total notes payable | | $ 14,672 | | $ 351 | | $ 10,717 |
| Subtotal governmental activities, before deferred balances | | | | | | 356,437 |
| Deferred amount on refunding | | | | | | (3,736) |
| Unamortized discount | | | | | | (94) |
| Unamortized premium | | | | | | 8,300 |
| Total governmental activities | | $514,022 | | $30,466 | | $360,907 |
| **Business-type Activities** | | | | | | |
| **Bonds/notes payable** | | | | | | |
| Economic Development Bonds (13) | | | | | | |
| Municipal Finance Consolidation Act Bonds (Irrigation Program) (14) | 1988 | $ 4,976 | 6.60-7.75 | $ 55 | 70 (2014) | $ 250 |
| Conservation Reserve Enhancement Program (CRP Bonds) (15) | | 120 | 5.00-7.15 | 120 | 120 (2011) | 120 |
| Total bonds/notes payable | | 5,096 | | 175 | | 370 |
| Total business-type activities | | $ 5,096 | | $ 175 | | $ 370 |

(1) The interest range is over the life of the obligation.

(2) Year of maturity refers to fiscal year.

(3) These bonds provide matching funds to enable the State to obtain capitalization grants from the U.S Environmental Protection Agency for water system development loans to state political subdivisions.

(4) The general obligation Renewable Resource Program Bonds are secured additionally by a pledge of, and payable from, certain coal severance taxes. The bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.

(5) Bonds issued for financing the design, construction, and installation of energy conservation projects at various state buildings.

(6) The CERCLA (Comprehensive Environmental Response, Compensation, and Liability Act) Program Bonds were issued for the purpose of financing the costs of State of Montana participation in the remedial actions under Section 104 of the CERCLA 42 United States Code Sections 9601-9657, and State of Montana costs for maintenance of sites under CERCLA. The CERCLA Bonds are secured additionally by a pledge of monies received by the State as cost recovery payments and revenues derived from the resource indemnity and groundwater assessment tax in the event cost recovery payments are insufficient.

(7) Facility Finance Authority loan to the Department of Public Health and Human Services for the Montana Developmental Center Project and the Montana State Hospital Project.

(8) Issued by the Department of Natural Resources and Conservation and backed by a pledge of coal severance taxes and project revenues.

(9) The U.S. Highway 93 GARVEES (Grant Anticipation Revenue Vehicles) Bonds were issued for the purpose of improving a 44.8-mile stretch of U.S. Highway 93. Repayment of the bonds is secured by a pledge of certain federal aid revenues.

(10) Loans obtained from Farmers Home Administration for the purpose of acquiring an irrigation (pumping) system for water distribution in the vicinity of Sidney, Montana (Little Dry Project) and to rehabilitate the Petrolia Reservoir and Canal in the vicinity of Winnett, Montana (Petrolia Project). A portion of the revenues generated by the facilities is pledged for repayment of the loans. In the fiscal year 2004 CAFR, the Little Dry Project Loan was incorrectly listed as a special revenue bond and the Petrolia Project Loan was incorrectly excluded from the long-term debt reported.

(11) U.S. Bureau of Reclamation loan to Montana Department of Natural Resources & Conservation.

(12) Northern Cheyenne Tribe loan to the Montana Department of Natural Resources & Conservation. The loan will not accrue interest and will be repaid over 39 years. Loan repayment is secured by the issuance of a coal severance tax bond to the tribe.

(13) Economic Development Bonds & Municipal Finance Consolidation Act Bonds – This program is directed by the Board of Investments, which is attached to the Department of Commerce for administrative purposes. The program assists Montana's small businesses and local governments in obtaining low-cost financing.

(14) These bonds were issued to obtain funds for the Board of Investments, State of Montana, to purchase the refunding bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds, and the interest thereon, are payable solely from the collection of a special tax or assessment, which is a lien against real property in the Irrigation District. The Irrigation Bonds are limited obligations of the Board of Investments, due to an irrevocable pledge to lend money for deposit by the trustee of the Irrigation District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein, on any payment date. The indenture does not permit the issuance of additional bonds.

(15) The Conservation Reserve Enhancement Program is funded by the Montana Trust Funds Investment Pool.

### D. Debt Service Requirements

Primary government debt service requirements at June 30, 2010, were as follows (in thousands):

**Governmental Activities**

| Year Ended June 30 | General Obligation Bonds | | Special Revenue Bonds | | Notes Payable | |
|---|---|---|---|---|---|---|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2011 | $ 16,085 | $ 6,615 | $ 14,030 | $ 8,278 | $ 351 | $ 47 |
| 2012 | 15,770 | 6,330 | 14,645 | 7,656 | 352 | 47 |
| 2013 | 16,345 | 5,454 | 15,310 | 7,005 | 353 | 47 |
| 2014 | 16,905 | 4,840 | 15,175 | 6,331 | 355 | 47 |
| 2015 | 15,280 | 4,203 | 15,695 | 5,632 | 368 | 47 |
| 2016-2020 | 57,185 | 12,381 | 85,685 | 16,261 | 1,877 | 232 |
| 2021-2025 | 22,730 | 4,108 | 16,030 | 1,442 | 1,971 | 232 |
| 2026-2030 | 8,850 | 653 | - | - | 2,097 | 232 |
| 2031-2035 | - | - | - | - | 2,123 | 232 |
| 2036-2040 | - | - | - | - | 870 | - |
| Total | $169,150 | $ 44,584 | $176,570 | $ 52,605 | $ 10,717 | $ 1,163 |

**Business-type Activities**

| Year Ended June 30 | Economic Development Bonds | |
|---|---|---|
| | Principal | Interest |
| 2011 | $ 175 | $25 |
| 2012 | 60 | 13 |
| 2013 | 65 | 8 |
| 2014 | 70 | 3 |
| Total | $370 | $49 |

Debt service requirements of discretely presented component units at June 30, 2010, were as follows (in thousands):

| Year Ended June 30 | Housing Authority | | Montana State University | | University of Montana | |
|---|---|---|---|---|---|---|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2011 | $162,525 | $ 36,330 | $ 3,691 | $ 6,237 | $ 5,597 | $ 6,422 |
| 2012 | 12,935 | 35,659 | 3,869 | 6,207 | 5,830 | 6,209 |
| 2013 | 13,980 | 35,083 | 5,774 | 4,355 | 6,087 | 5,946 |
| 2014 | 15,145 | 34,436 | 5,955 | 4,117 | 6,369 | 5,654 |
| 2015 | 15,920 | 33,736 | 6,240 | 3,865 | 6,637 | 5,364 |
| 2016-2020 | 95,866 | 156,223 | 34,615 | 15,147 | 37,765 | 21,843 |
| 2021-2025 | 128,910 | 129,129 | 23,810 | 7,681 | 46,880 | 10,696 |
| 2026-2030 | 165,090 | 91,886 | 11,795 | 4,452 | 12,600 | 2,383 |
| 2031-2035 | 165,255 | 48,703 | 13,510 | 1,833 | 3,135 | 296 |
| 2036-2040 | 90,135 | 11,663 | 1,550 | 30 | - | - |
| 2041-2045 | 10,570 | 879 | - | - | - | - |
| Total | $876,331 | $613,727 | $110,809 | $ 53,924 | $130,900 | $ 64,813 |

## E. Summary of Changes in Long-term Liabilities Payable

Primary government long-term liability activity for the year ended June 30, 2010, was as follows (in thousands):

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year | Amounts Due In More Than One Year |
|---|---|---|---|---|---|---|
| **Governmental activities** | | | | | | |
| Bonds/notes payable | | | | | | |
| General obligation bonds | $182,585 | $ 32,070 | $ 45,505 | $169,150 | $16,085 | $153,065 |
| Special revenue bonds | 189,970 | - | 13,400 | 176,570 | 14,030 | 162,540 |
| Notes payable | 11,065 | - | 348 | 10,717 | 351 | 10,366 |
| | 383,620 | 32,070 | 59,253 | 356,437 | 30,466 | 325,971 |
| Deferred amount on refunding | (3,569) | - | 166 | (3,735) | - | (3,735) |
| Unamortized discount | (107) | 12 | - | (95) | - | (95) |
| Unamortized premium | 8,324 | - | 24 | 8,300 | - | 8,300 |
| Total bonds/notes payable | 388,268 | 32,082 | 59,443 | 360,907 | 30,466 | 330,441 |
| Other liabilities | | | | | | |
| Lease/installment purchase payable | 2,680 | 464 | 704 | 2,440 | 931 | 1,509 |
| Compensated absences payable (1) | 95,301 | 48,192 | 47,993 | 95,500 | 47,993 | 47,507 |
| Early retirement benefits payable (1) | 24 | 6 | - | 30 | 6 | 24 |
| Arbitrage rebate tax payable (1) | 230 | 39 | 28 | 241 | 145 | 96 |
| Estimated insurance claims (1) | 28,606 | 1,718 | 640 | 29,684 | 16,820 | 12,864 |
| Pollution Remediation | 495,495 | 70,484 | 32,217 | 533,762 | 47,174 | 486,588 |
| OPEB implicit rate subsidy (2) | 82,808 | 35,163 | - | 117,971 | - | 117,971 |
| Total other liabilities | 705,144 | 156,066 | 81,582 | 779,628 | 113,069 | 666,559 |
| Total governmental activities Long-term liabilities | $1,093,412 | $188,148 | $141,025 | $1,140,535 | $143,535 | $997,000 |
| **Business-type activities** | | | | | | |
| Bonds/notes payable | | | | | | |
| Economic Development Bonds | $ 1,180 | $ - | $ 810 | $ 370 | $ 175 | $ 195 |
| Total bonds/notes payable | 1,180 | - | 810 | 370 | 175 | 195 |
| Other liabilities | | | | | | |
| Compensated absences payable | 1,514 | 851 | 771 | 1,594 | 771 | 823 |
| Arbitrage rebate tax payable | 19 | - | 7 | 12 | 12 | - |
| Estimated insurance claims | 18,055 | 1,484 | 688 | 18,851 | 9,292 | 9,559 |
| OPEB implicit rate subsidy (2) | 1,479 | 604 | - | 2,083 | - | 2,083 |
| Total other liabilities | 21,067 | 2,939 | 1,466 | 22,540 | 10,075 | 12,465 |
| Total business-type activities Long-term liabilities | $ 22,247 | $ 2,939 | $ 2,276 | $ 22,910 | $10,250 | $ 12,660 |

(1) The compensated absences liability attributable to the governmental activities will be liquidated by several of the governmental and internal service funds. The early retirement benefits payable will be liquidated by the general, state special revenue, and federal special revenue funds. The arbitrage rebate tax payable will be liquidated by debt service funds. The Employee Group Benefits and Administration Insurance internal service funds will liquidate the estimated insurance claims liability.

(2) The OPEB plan allows retirees to participate, as a group, at a rate that does not cover all the related costs. This results in the reporting of an "implicit rate" subsidy in the related financial statements. While this liability is disclosed for financial purposes, it does not represent a legal liability of the State, or any of its component units.

Long-term liability activity of discretely presented component units for the year ended June 30, 2010, was as follows (in thousands):

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year | Amounts Due In More Than One Year |
|---|---|---|---|---|---|---|
| **Discretely presented component units** | | | | | | |
| Bonds/notes payable | | | | | | |
| Housing Authority | $ 872,411 | $ 150,071 | $ 139,096 | $ 883,386 | $162,525 | $ 720,861 |
| Montana State University (MSU) | 119,039 | - | 4,969 | 114,070 | 5,300 | 108,770 |
| University of Montana (UM) | 135,018 | 494 | 6,176 | 129,336 | 5,597 | 123,739 |
| Total bonds/notes payable (1) | 1,126,468 | 150,565 | 150,241 | 1,126,792 | 173,422 | 953,370 |
| Other liabilities | | | | | | |
| Lease/installment purch pay | 414 | 83 | 227 | 270 | 121 | 149 |
| Compensated absences pay | 54,296 | 23,690 | 22,746 | 55,240 | 23,848 | 31,392 |
| Arbitrage rebate tax payable | 728 | 140 | 59 | 809 | 30 | 779 |
| Estimated insurance claims | 878,879 | 25,461 | 7,546 | 896,794 | 123,389 | 773,405 |
| Due to federal government | 32,025 | 405 | 4 | 32,426 | - | 32,426 |
| Derivative swap liability | 4,838 | 1,055 | 2,095 | 3,798 | - | 3,798 |
| Reinsurance funds withheld | - | 65,013 | 812 | 64,201 | - | 64,201 |
| OPEB implicit rate subsidy (2) | 35,183 | 20,500 | - | 55,683 | - | 55,683 |
| Total other liabilities | 1,006,363 | 136,347 | 33,489 | 1,109,221 | 147,388 | 961,833 |
| | $2,132,831 | $286,912 | $183,730 | $2,236,013 | $320,810 | $1,915,203 |
| Long-term liabilities of Montana University System component units | | | | | 61 | 936 |
| Total discretely presented component units Long-term liabilities | | | | | $320,871 | $1,916,139 |

(1) When applicable, this amount includes deferred refunding costs, unamortized discounts, and unamortized premiums.

(2) The OPEB plan allows retirees to participate, as a group, at a rate that does not cover all the related costs. This results in the reporting of an "implicit rate" subsidy in the related financial statements. While this liability is disclosed for financial purposes, it does not represent a legal liability of the State, or any of its component units. OPEB is reported as a single line item on the financial statements.

## F. Refunded and Early Retired Debt

### Primary Government

Prepayments

The Department of Administration (D of A) used current available resources to make the following payments which resulted in the bonds being paid in full: $1,765,000 of general obligation Series 1998B, $9,160,000 of general obligation Series 1998D; $2,225,000 of general obligation Series 2003H.

Current Refundings

On May 11, 2010, D of A issued Series general obligation 2010A Bonds in the amount of $20,220,000 to make the following advanced refundings: $7,810,000 of Series 1998D Bonds; $6,170,000 of Series 2001B Bonds; $6,370,000 of Series 2002D Bonds. The refunding resulted in an economic gain of $1,450,532 and a difference in cash flow requirements of $1,320,961.

On May 18, 2010, the Department of Natural Resources and Conservation (DNRC) issued general obligation Series 2010B Bonds in the amount of $5,400,000 to make the following advanced refundings: $1,880,000 of Series 2000A Bonds; $2,080,000 of Series 2001G Bonds. Also on May 18, 2010, DNRC issued general obligation Series 2010C Bonds in the amount of $6,450,000 to make the following advanced refunding: $2,095,000 of Series 2000B Bonds; $1,750,000 of Series 2001H Bonds. The refunding resulted in an economic gain of $413,585 and a difference in cash flow requirements of $360,678.

Defeased Debt Outstanding

The State of Montana has defeased certain general obligation and special revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2010, $82,945,000 of bonds outstanding was considered defeased.

**Board of Investments**

Prepayments

During fiscal year 2010, the Economic Development Bond fund used current available resources to make prepayments of $474,000 on an outstanding note.

**Universities**

Defeased Debt Outstanding

The University of Montana has defeased certain bond issues by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2010, $43,221,810 of bonds outstanding were considered defeased for the University of Montana.

## G. No-Commitment Debt

Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

**Primary Government**

Montana Board of Investments (BOI)

Under the Economic Development Act, the BOI is authorized to issue stand-alone industrial revenue bonds to finance projects for qualifying borrowers. Assets and revenues of the borrower are pledged to repay the bonds. At June 30, 2010, industrial revenue bonds outstanding aggregated $170.1 million.

The BOI is also authorized to issue Qualified Zone Academy Bonds (QZAB) under the Municipal Finance Consolidation Act. The revenues, and in some cases, the taxing power of the borrower are pledged to repay the bonds. At June 30, 2010, QZAB debt outstanding aggregated $10.1 million.

Neither the industrial revenue bonds nor the QZAB debt issued by the BOI constitutes a debt, liability, obligation, or pledge of faith and credit of the State of Montana.

Beginning Farm Loan Program

The Montana Department of Agriculture is authorized to request issuance of bonds by the BOI to finance projects for beginning farmers within the State, if it appears, after a properly noticed public hearing, that the project is in the public interest of the State. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State of Montana. The amount issued and outstanding at June 30, 2010, was as follows: Hershberger Project – issued $129,412, outstanding $98,796; Young Project – issued $223,300, outstanding $187,716.

**Discretely Presented Component Units**

Facility Finance Authority (FFA)

The FFA is authorized to issue bonds and notes to finance projects for qualifying health care and other community-based service providers. The revenue bonds are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements, and further, from the funds created by the indentures and investment earnings thereon. The notes are payable solely from loan repayments pursuant to loan agreements. The revenue bonds and notes payable issued by the FFA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2010, revenue bonds outstanding aggregated $938.0 million, and notes payable outstanding aggregated $26.1 million.

The BOI and the FFA have entered into a capital reserve account agreement for certain bond issues. See Note 16 C. (Miscellaneous Contingencies) for more information.

Housing Authority (HA)
HA is authorized to issue bonds and make mortgage loans in order to finance housing which will provide decent, safe, and sanitary housing for persons and families of lower income in the State of Montana. The bonds are special, limited obligations, payable solely from pledged revenues and assets, not general obligations of the HA. The bonds issued by the HA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2010, bonds outstanding aggregated $10,761,935.

### H. Derivative Transactions Related to Long-term Debt

Montana State University (MSU) has two interest rate swaps as of June 30, 2010. Interest rate swaps are classified as hedging derivative instruments if the instruments meet the criteria of paragraph 27 a and b of Governmental Accounting Standards Board Statement Number 53, or as investment derivative instruments if they do not. The following table summarizes the interest rate swaps outstanding as of June 30, 2010:

| Derivative Description | Trade Date | Effective Date | Termination Date | Counterparty |
|---|---|---|---|---|
| $25.75 million fixed payer swap | 3/10/2005 | 7/21/2005 | 11/15/2035* | Deutsche Bank AG* |
| $25.25 million basis swap | 12/19/2006 | 11/15/2007 | 11/15/2035 | Morgan Stanley Capital Services Inc. |

*Counterparty may opt out in 2016

As of the date of this report, the $25.75 million fixed payer swap is classified as a hedging derivative instrument under Statement No. 53, whereas the $25.25 million basis swap is an investment derivative instrument because there is no identified financial risk being hedged by the basis swap that can be expressed in terms of exposure to adverse changes in cash flows or fair values. Statement No. 53 includes four methods for evaluating hedge effectiveness; a governmental entity can use any of the evaluation methods outlined in the Statement and is not limited to using the same method from period to period. The four methods described in Statement No. 53 are: consistent critical terms, synthetic instrument, dollar-offset, and regression analysis. The fixed payer swap passes the established criteria using the regression analysis methodology.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. The table below summarizes the derivative instrument activity and the reported balances for the year ended June 30, 2010.

| | Change in Fair Value during 2010 – Debit/(Credit) | | Fair Value at June 30, 2010— Debit/(Credit) | |
|---|---|---|---|---|
| Cash flow hedges: | Classification | Amount | Classification | Amount |
| Fixed payer interest rate swap | Deferred outflow | $ 1,055,390 | Noncurrent liability | $ (3,799,069) |
| Basis swap | Investment income | $ ( 788,130) | Investment | $ 1,658,449 |

The objective and terms of MSU's hedging derivative outstanding as of June 30, 2010 is as follows:

| Type | Objective | Notional amount (000's) | Effective Date | Termination Date | Cash (Paid)/ Received (000's) | Terms |
|---|---|---|---|---|---|---|
| Fixed payer swap | Hedge interest rate risk on Series J 2005 Bonds | $24.525 | 7/21/2005 | 11/15/2035 | - | Pay 3.953%<br>Receive SIFMA |

It is MSU's policy to enter into derivative agreements with highly rated counterparties. As of June 30, 2010, all interest rate swap counterparties are rated A or higher by Fitch or S&P, or A2 or higher by Moody's. MSU manages

credit risk by requiring its counterparties to post collateral in certain events. MSU is entitled to collateral from its fixed payer swap counterparty if the interest rate swap's fair value is greater than $5MM and the counterparty is rated A+ or A, by S&P, or A1 or A2 by Moody's. If the counterparty to the fixed payer swap is rated A- or below, by S&P, or A3 or below by Moody's, MSU is entitled to collateral up to 100% of the swap's fair value. MSU is not required to post collateral. MSU enters into derivative agreements with multiple counterparties to limit concentration of credit risk. Currently, MSU has interest rate swaps with two different counterparties and each counterparty accounts for approximately 50% of outstanding notional. MSU monitors counterparty credit risk on an ongoing basis.

Interest payments on variable rate debt will typically increase as interest rates increase. MSU believes it has significantly reduced interest rate risk by entering into a pay-fixed, receive floating interest rate swap. As interest rates increase, variable rate debt interest payments increase but net swap payments decrease. As interest rates decrease, variable rate debt payments decrease but net swap payments increase.

The variable rate debt hedged by MSU's derivative is variable rate demand obligation (VRDO) bond that is remarketed daily. MSU is exposed to basis risk because the variable rate receipts from the hedging derivative are based on a rate or index other than the interest rates paid on the VRDO bonds. MSU is exposed to basis risk to the extent that variable payments on the hedged item are not offset by the variable receipts from the hedging derivative. For the year ended June 30, 2010, the weighted average interest rate on MSU's variable rate hedged debt was 0.21%; SIFMA was 0.28%.

MSU or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. In addition, MSU's fixed payer swap counterparty has the right to terminate the derivative if the credit rating of MSU's unenhanced long-term revenue bond rating is withdrawn, suspended or reduced below BBB-, in the case of S&P, or below Baa3 in the case of Moody's. If such an event occurs, the MSU could be forced to terminate the fixed payer swap in a liability position. As of June 30, 2010, MSU's unenhanced long-term revenue bond rating was Aa3 by Moody's.

DBAG has the option to unwind the fixed payer swap in 2016, exposing MSU to rollover risk for the Series J Bonds' remaining term. If the swaption is not exercised in 2016, the swap terminates in November, 2035, at which time the Series J Bonds mature.

All hedging derivatives are denominated in US Dollars and therefore MSU is not exposed to foreign currency risk.

Market access risk is the risk that the University will not be able to enter credit markets or that credit will become more costly. For example, to complete a derivative instrument's objective, an issuance of refunding bonds may be planned in the future. If at that time MSU is unable to enter credit market, expected cost savings may not be realized.

In August, 2005 the University of Montana (UM) entered into a forward SWAP agreement ("swaption") with Wachovia Bank, NA ("counterparty") to hedge the interest rate risk associated with the potential future issuance of variable-rate revenue bonds. In exchange, UM received $2,094,500 from the counterparty. A portion of the payment was consideration for the estimated present value of the fixed rate payable under the agreement upon execution of the swaption. The swaption gave the counterparty the right to require that UM execute a floating-to-fixed swap in May 2010, based on a notional amount of $47,000,000. Should the counterparty exercise its option, UM would expect to issue Series K 2010 taxable, variable rate bonds at the $47,000,000 notional amount of the swap. The intention of UM in entering into the swaption was to refund its outstanding Series F 1999 Revenue Bonds and lower the cost of its borrowing.

Under terms of the swap, UM would pay the counterparty a fixed rate substantially equal to the fixed rate on the refunded bonds and receive a variable payment based on the one-month LIBOR rate, plus 30 basis points.

On December 21, 2009, UM terminated the swaption with the counterparty due to projected unfavorable long-term interest rates and the current volatility in the financial markets. In order to liquidate the derivative financial instrument amounting to $2,094,500 and terminate the swaption agreement in its entirety, UM paid the counterparty

$5,410,000 resulting in a net loss totaling $3,315,500. The net loss is included in investment income reported at June 30, 2010.

### I. Estimated Pollution Remediation Obligation

Estimated pollution remediation obligations are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The estimates were derived using the expected cash flows method as well as technical estimates from record of decisions, consent decrees and/or settlement agreements. Factors influencing the estimates are not known at this time. Prospective recoveries from other responsible parties may reduce the State's obligation. The amount of recoveries received in 2010 was $5 million.

The State's estimated pollution remediation liability as of July 1, 2009 was estimated at $495.5 million. The liability as of June 30, 2010 was $533.8 million. Of this liability; $261.9 million resulted in settlement agreements to provide restoration of natural resources, water supplies and natural resource-based recreational opportunities up to the settlement amount; $254.1 million is based on decrees or settlements for remediation activities. Other estimated liabilities have been recorded for soil and PCB contamination. The estimated pollution remediation liability was recorded in compliance with accounting and reporting standards and does not constitute Montana's total acceptance of the liability or responsibility on these matters.

## NOTE 12. INTERFUND BALANCES AND TRANSFERS

### A. Balances Due From/To Other Funds

Balances due from/to other funds arise when there is a time lag between the dates that reimbursable expenditures and interfund services provided/used are recorded in the accounting system, and the dates on which payments are made. Balances also arise when there is a time lag between the dates that transfers between funds are recorded, and the dates on which payments are made. Balances due from/to other funds also include the current portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments INTERCAP loan program. Balances due from/to other funds are expected to be repaid within one year from the date of the financial statements.

Balances due from/to other funds at June 30, 2010, consisted of the following (in thousands):

| | Due to Other Funds | | | | |
|---|---|---|---|---|---|
| | Coal Severance Tax Permanent | Federal Special Revenue | General Fund | Internal Service Funds | Nonmajor Enterprise Funds |
| **Due From Other Funds** | | | | | |
| Economic Development Bonds | $ - | $ - | $ - | $1,940 | $ - |
| Federal Special Revenue | - | - | - | - | - |
| General Fund | 4,251 | 44 | - | 25 | 14,588 |
| Internal Service Funds | 36 | 332 | 80 | 22 | 603 |
| Land Grant Trust | - | - | - | - | - |
| Nonmajor Governmental Funds | - | 1,014 | 153 | - | - |
| State Special Revenue | - | 263 | 210 | 13 | 1,016 |
| Total | $4,287 | $1,653 | $443 | $2,000 | $16,207 |

| | Nonmajor Governmental Funds | State Special Revenue | Land Grant Trust | Total |
|---|---|---|---|---|
| **Due From Other Funds** *(continued)* | | | | |
| Economic Development Bonds | $ 11 | $ 1,969 | $ - | $ 3,920 |
| Federal Special Revenue | - | | - | |
| General Fund | - | 33,012 | - | 51,920 |
| Internal Service Funds | - | 324 | - | 1,397 |
| Land Grant Trust | - | - | 8,550 | 8,550 |
| Nonmajor Governmental Funds | 50 | 248 | 2 | 1,467 |
| State Special Revenue | 10,556 | - | (8,513) | 3,545 |
| Total | $10,617 | $35,553 | $ 39 | $70,799 |

## B. Interfund Loans Receivable/Payable

Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. Interfund loans receivable/payable are expected to be repaid within one year from the date of the financial statements.

Interfund loans receivable/payable at June 30, 2010, consisted of the following (in thousands):

| | Interfund Loans Payable | | | | | |
|---|---|---|---|---|---|---|
| | Federal Special Revenue | Internal Service Funds | Nonmajor Governmental Funds | Nonmajor Enterprise Funds | State Special Revenue | Total |
| **Interfund Loans Receivable** | | | | | | |
| General Fund | $34,845 | $ 1,320 | $560 | $ - | $7,485 | $44,210 |
| Internal Service Funds | - | - | - | 45 | - | 45 |
| Nonmajor Enterprise Funds | 131 | - | - | - | - | 131 |
| State Special Revenue | 50,468 | 35 | - | - | - | 50,503 |
| Total | $85,444 | $1,355 | $560 | $45 | $7,485 | $94,889 |

## C. Advances To/From Other Funds

Advances to/from other funds represent the portion of interfund loans that are not expected to be repaid within one year from the date of the financial statements. Advances to/from other funds also include the noncurrent portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments INTERCAP loan program.

Advances to/from other funds at June 30, 2010, consisted of the following (in thousands):

| | Advances from Other Funds | | | | |
|---|---|---|---|---|---|
| | Federal Special Revenue | Internal Service Funds | Nonmajor Governmental Funds | State Special Revenue | Total |
| **Advances to Other Funds** | | | | | |
| Coal Severance Tax Permanent | $ - | $ - | $ - | $ 404 | $ 404 |
| Economic Development Bonds | - | 5,038 | 1,944 | 15,018 | 22,000 |
| General Fund | 1,088 | | - | - | 1,088 |
| Nonmajor Enterprise Funds | 75 | - | - | - | 75 |
| Nonmajor Governmental Funds | - | - | - | 3,174 | 3,174 |
| State Special Revenue | 2,120 | 300 | 17,002 | - | 19,422 |
| Total | $3,283 | $5,338 | $18,946 | $18,596 | $46,163 |

Additional detail for certain advance balances at June 30, 2010, follows (in thousands):

**Advances from the Economic Development Bonds Fund under the INTERCAP Loan Program**

| Department | Balance |
|---|---|
| Natural Resources and Conservation | $ 1,944 |
| Environmental Quality | 911 |
| Justice | 14,107 |
| Transportation | 5,038 |
| Total | $22,000 |

**Advances from the Coal Severance Tax Permanent Fund**

| Department | Balance |
|---|---|
| Justice | $404 |
| Total | $404 |

## D. Interfund Transfers

Routine transfers between funds are recorded to (1) transfer revenues from the fund legally required to receive the revenue to the fund authorized to expend the revenue, (2) transfer resources from the General Fund and special revenue funds to debt service funds to support principal and interest payments, (3) transfer resources from enterprise funds to the General Fund to finance general government expenditures, and (4) provide operating subsidies.

Interfund transfers for the year ended June 30, 2010, consisted of the following (in thousands):

| | Transfers In | | | | |
|---|---|---|---|---|---|
| | Coal Severance Tax Permanent | Federal Special Revenue | General Fund | Internal Service Funds | Land Grant Permanent |
| **Transfers Out** | | | | | |
| Coal Severance Tax Permanent | $ - | $ - | $26,914 | $ - | $ - |
| Federal Special Revenue | - | - | 14 | - | - |
| General Fund | - | - | - | 804 | - |
| Internal Service Funds (1) | - | 2 | - | - | - |
| Land Grant Permanent | - | - | - | - | - |
| Nonmajor Enterprise Funds (2) | - | - | 36,484 | - | - |
| Nonmajor Governmental Funds | 239 | - | - | - | - |
| State Special Revenue | - | 6,841 | 7,723 | 1,104 | 910 |
| Unemployment Insurance | - | 188 | - | - | - |
| Total | $239 | $7,031 | $71,135 | $1,908 | $910 |

| | | | Transfers In (cont) | | |
|---|---|---|---|---|---|
| | Nonmajor Enterprise Funds | Nonmajor Governmental Funds | State Special Revenue | Economic Development Bonds | **Total** |
| **Transfers Out (cont.)** | | | | | |
| Coal Severance Tax Permanent | $ - | $ 527 | $ 14,114 | - | $ 41,555 |
| Federal Special Revenue | - | 31,928 | 35,348 | - | 67,290 |
| General Fund | 50 | 40,435 | 80,151 | - | 121,440 |
| Internal Service Funds (1) | - | - | - | 472 | 474 |
| Land Grant Permanent | - | 1,636 | 160,680 | - | 162,316 |
| Nonmajor Enterprise Funds (2) | - | - | 5,643 | - | 42,127 |
| Nonmajor Governmental Funds | - | 2,321 | 23,078 | - | 25,638 |
| State Special Revenue | - | 15,869 | - | - | 32,447 |
| Unemployment Insurance | - | - | - | | 188 |
| Total | $50 | $92,716 | $319,014 | $472 | $493,475 |

(1) Total transfers-out for internal service funds on the financial statements is reported as $1,586,962. The difference of $1,112,777 between the amount reported above of $474,185 and the amount reported on the financial statements relates to the movement of capital assets between a governmental fund type and the internal service fund type. When assets were transferred between these funds, the transferring fund recorded the net book value of the capital asset as a transfer-out, and the receiving fund type recorded the net book value of the capital asset as a capital contribution.

(2) Total transfers-out for nonmajor enterprise funds on the financial statements is reported as $42,819,759. The difference of $694,203 between the amount reported above of $42,125,556 and the amount reported on the financial statements relates to the movement of capital assets between a governmental fund type and the nonmajor enterprise fund type. When assets were transferred between these funds, the transferring fund recorded the net book value of the capital asset as a transfer-out, and the receiving fund type recorded the net book value of the capital asset as a capital contribution.

## NOTE 13. FUND DEFICITS

The following funds have a deficit fund balance/net assets position at June 30, 2010, (in thousands):

| Fund Type/Fund | Deficit |
|---|---|
| **Enterprise funds** | |
| Subsequent Injury | $(2,452) |
| **Internal service funds** | |
| Admin Central Services | $ (39) |
| Justice Legal Services | $ (191) |
| OPI Central Services | $ (111) |
| Personnel Training | $ (38) |
| **Nonmajor Capital Project Funds** | |
| Federal/Private Construction Grants | $ (258) |
| Capital Land Grant | $(8,050) |

## NOTE 14. MAJOR PURPOSE PRESENTATION

**Fund Balances Classifications and Special Revenue by Purpose** – The Governmental Accounting Standards Board, in Statement No. 54, requires presentation of governmental fund balances and special revenue fund revenues by specific purpose. In the basic financial statements, the fund balance classifications are presented in the aggregate. The tables presented below further display the fund balances by major purpose.

**FEDERAL SPECIAL REVENUE BY SOURCE (in thousands)**

| | General Government | Public Safety | Transportation | Health and Human Services | Education | Natural Resources | Total |
|---|---|---|---|---|---|---|---|
| Charges for services | $ 515 | $ 12 | $ - | $ 3,308 | $ 32,897 | $ 4 | $ 36,736 |
| Investment earnings | 21 | 4 | - | - | 87 | - | 112 |
| Securities lending income | 1 | 1 | - | - | 9 | - | 11 |
| Sales of documents/merchandise/ property | - | - | - | - | - | 13 | 13 |
| Contributions/premiums | - | - | - | - | 1 | 39 | 40 |
| Grants/contracts/donations | - | 62 | - | - | - | - | 62 |
| Federal | 167,452 | 9,035 | 486,358 | 1,175,315 | 247,166 | 137,478 | 2,222,804 |
| Federal indirect cost recoveries | 101 | 56 | - | 52,320 | 623 | 263 | 53,363 |
| Other revenues | 8 | 2 | 1 | 154 | 2 | 20 | 187 |
| Transfers in | 244 | 1,328 | - | 819 | - | 4,640 | 7,031 |
| Total federal special revenue | $ 168,342 | $ 10,500 | $ 486,359 | $ 1,231,916 | $ 280,785 | $ 142,457 | $ 2,320,359 |

**STATE SPECIAL REVENUE BY SOURCE (in thousands)**

| | General Government | Public Safety | Transportation | Health and Human Services | Education | Natural Resources | Total |
|---|---|---|---|---|---|---|---|
| Licenses/permits | $ 22,468 | $ 14,504 | $ 27,652 | $ 34,616 | $ 1,499 | $ 59,757 | 160,496 |
| Taxes | 125,383 | 2,371 | 195,793 | 54,926 | 17,733 | 39,728 | 435,934 |
| Charges for services | 22,744 | 48,397 | 7,045 | 35,281 | 914 | 28,717 | 143,098 |
| Investment earnings | 298 | 25,261 | 197 | 217 | 51 | 26,177 | 52,201 |
| Securities lending income | 35 | 245 | 23 | 32 | 1 | 311 | 647 |
| Sales of Documents/merchandise/ property | 1,200 | 1,897 | 315 | 127 | 300 | 1,578 | 5,417 |
| Rentals/leases/royalties | 221 | 3 | 277 | 23 | 4 | 117 | 645 |
| Contributions/premiums | 19,706 | - | - | - | - | - | 19,706 |
| Grants/contracts/donations | 6,888 | 786 | 445 | 4,703 | 1,729 | 4,157 | 18,708 |
| Federal | 11,549 | 32 | - | 1,286 | - | 540 | 13,407 |
| Federal indirect cost recoveries | - | - | 55,747 | 18 | - | 3,622 | 59,387 |
| Other revenues | 1,082 | 533 | 972 | 408 | - | 335 | 3,330 |
| Transfers in | 66,425 | 3,124 | 1,298 | 19,904 | 1,232 | 227,031 | 319,014 |
| Total state special revenue | $ 277,999 | $ 97,153 | $ 289,764 | $ 151,541 | $ 23,463 | $ 392,070 | $ 1,231,990 |

**GOVERNMENTAL FUND BALANCE BY FUNCTION**

*(in thousands)*

| | | SPECIAL REVENUE | | PERMANENT | | | |
|---|---|---|---|---|---|---|---|
| | GENERAL | STATE | FEDERAL | COAL SEVERANCE TAX | LAND GRANT | NONMAJOR | TOTAL |
| Fund balances: | | | | | | | |
| Nonspendable | | | | | | | |
| Inventory | $ 4,028 | $ 22,990 | $ - | $ - | $ - | $ - | $ 27,018 |
| Permanent fund principal | - | - | - | 535,714 | 423,982 | 183,739 | 1,143,435 |
| Long-term notes / receivable | 96 | - | - | - | - | - | 96 |
| Prepaid Expense | 491 | 870 | - | - | - | - | 1,361 |
| Total Nonspendable | 4,615 | 23,860 | - | 535,714 | 423,982 | 183,739 | 1,171,910 |
| Restricted | | | | | | | |
| General government | - | 2,380 | 10,733 | - | - | 672 | 13,785 |
| Transportation | - | 102,520 | - | - | - | - | 102,520 |
| Health and Human Services | - | 18,441 | 456 | - | - | 3,470 | 22,367 |
| Natural resources | - | 345,572 | 95 | - | 77,360 | 15,383 | 438,410 |
| Public safety | - | 317,295 | - | - | - | - | 317,295 |
| Education | - | 3,411 | 21,233 | - | - | - | 24,644 |
| Total Restricted | - | 789,619 | 32,517 | - | 77,360 | 19,525 | 919,021 |
| Committed | | | | | | | |
| General government | - | 173,661 | - | 330,069 | - | 47,500 | 551,230 |
| Transportation | - | 6,403 | - | - | - | - | 6,403 |
| Health and Human Services | - | 65,050 | - | - | - | 128,577 | 193,627 |
| Natural resources | - | 472,833 | - | - | - | 28,991 | 501,824 |
| Public safety | - | 10,782 | - | - | - | 718 | 11,500 |
| Education | - | 822 | - | - | - | - | 822 |
| Total Committed | - | 729,551 | - | 330,069 | - | 205,786 | 1,265,406 |
| Assigned | | | | | | | |
| General government | 1,088 | 849 | - | - | - | 31,490 | 33,427 |
| Health and Human Services | - | 154 | - | - | - | (6) | 148 |
| Natural resources | - | 76 | - | - | - | 342 | 418 |
| Public safety | - | - | - | - | - | 2,949 | 2,949 |
| Education | - | 138 | - | - | - | - | 138 |
| FY 2011 appropriation | 70,270 | - | - | - | - | - | 70,270 |
| Encumbrances | 11,986 | - | - | - | - | - | 11,986 |
| Total Assigned | 83,344 | 1,217 | - | - | - | 34,775 | 119,336 |
| Unassigned | 239,047 | (9,392) | (403) | - | - | (17,069) | 212,183 |
| Total fund balances | $ 327,006 | $ 1,534,855 | $ 32,114 | $ 865,783 | $ 501,342 | $ 426,756 | $ 3,687,856 |

## NOTE 15. RELATED PARTY TRANSACTIONS

The Montana Board of Regents (Regents), an agency within the State, is the guarantor of loans owned by the Montana Education Student Assistance Corporation (MHESAC), a private non-profit. The Regents and MHESAC have one common voting board member and one common non-voting officer. Approximately 73.51% of the Regents' outstanding loan volume, or $1,508,618,268, is held by MHESAC.

A staff member in the Department of Administration, Health Care and Benefits Division, serves as a Director of the Montana Association of Health Care Purchasers for no remuneration. The Department pays this association $1 per member per year to maintain its membership as well as a monthly fee of $.70 per member. The monthly fees are payment for data analysis, actuarial analysis, and consulting services performed by association staff on behalf of member employers. The Montana University System is also a member of this organization.

Office space for one of the regional public defender offices is provided at no charge to the office. The space is owned by the deputy public defender for that region. The value of the office is estimated to be $12,400 per year.

The Montana School for the Deaf and Blind is associated with a foundation, which is a nonprofit organization outside of state government. The school's foundation is governed by a board of directors that yearly approves a budget for the financial support to be provided to the school. This budget defines the allowable expense categories for the year. A school employee is the person approving the expenses to be paid by the foundation based on its budget. The employee submits the approved invoices to the foundation's bookkeeper, who then prepares the checks and submits them to a board member who reviews backup documentation and signs the checks.

## NOTE 16. CONTINGENCIES

### A. Litigation

The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

In State of Montana v. Philip Morris, Inc., No. CDV 97-306 (Mont. 1st Jud. Dist. Lewis & Clark County), the State of Montana filed various claims against six tobacco manufacturers seeking recovery of an unspecified amount of damages, penalties, and attorney's fees. The lawsuit was resolved eventually through two settlements. The State first settled its claims against one of the manufacturers, Liggett & Meyers, Inc., for $1 million to be paid over a 20-year period. It next settled its claims against the remaining manufacturers in November 1998 for a base settlement amount of $832 million payable over 26 years. The base amount was augmented by $90 million in 1999, with the additional amount to be paid in equal installments over a 10-year period beginning in 2007.

The settlement provides that the cigarette manufacturers may offset against their payment in any year certain amounts of money if it is found that the original settling manufacturers (known as OPMs) have lost more than 2% of their market share to non-settling manufacturers (known as NPMs), and that the disadvantages imposed by the settlement were a "significant factor" in the market share loss. The settlement further provides that the offset, known as the "NPM adjustment" may not be taken against the payments to any state that has enacted a "qualifying statute" and diligently enforced the statute during the year in question. Montana enacted such a qualifying statute in 1999, Title 16, Chapter 11, Parts 401 – 404, MCA.

In March 2006, a determination was made pursuant to the settlement that the OPMs had lost sufficient market share in 2003 to trigger an NPM adjustment analysis, and that disadvantages caused by the settlement were a significant factor in the market share loss. Similar findings have been made or agreed to for years 2004 through 2006. The State has filed a motion in the lawsuit seeking a declaration that it diligently enforced its qualifying statute during 2003. The OPMs moved to compel arbitration of the question, and the Montana Supreme Court has rejected the OPMs motion. In the opinion of the counsel, good factual arguments exist to show that the State diligently enforced its statute during the year in question. However, legal and procedural uncertainties exist that make an adverse determination reasonably possible. An adverse determination on the diligent enforcement issue could result in the loss of some or all of the State's payments for years 2003 through 2006, which would be recouped through an offset

of payments due in future years. At present, the NPM case involves roughly $1.8 million that was withheld from the April 2006 payment to the State. The OPMs have asserted claims for NPM adjustments for later years as well. The outcome of these claims is also uncertain.

This settlement has also formed the basis for other lawsuits against the State. On July 1, 2002, a group of cigarette manufacturers and marketers filed suit against the Attorneys General of 31 states, including Montana, in the United States District Court for the Southern District of New York, seeking a declaration that the provisions of Title 16, Chapter 11, Part 4, MCA, violate several provisions of the United States Constitution, and seeking injunctive relief against the enforcement of the statutes. Grand River Enterprises Six Nations, Ltd., v. Pryor et al., Docket No. 02 CV 5068 (U.S. Dist. Ct., S.D.N.Y.). An adverse outcome could threaten the ability of the State to continue to receive payments from the tobacco companies under the settlement of the Mazurek case. The potential loss to the Treasury could amount to $30-35 million annually. The federal district court had dismissed the complaint, but the United States Court of Appeals for the Second Circuit has reversed the trial court and remanded one of the claims for further proceedings. The United States Supreme Court has denied review, and the case has been remanded for further proceedings. In the opinion of counsel, good defenses exist to the claims, and an adverse result impairing or preventing receipt of the State's payment is possible, but unlikely.

Beginning in February 2001, the Montana Department of Fish, Wildlife and Parks became the defendant in a number of lawsuits challenging the constitutionality and enforcement of Initiative Measure 143, which banned the issuance of new licenses for game farms in Montana, prohibited the transfer of existing licenses, and prohibited game farm licenses from allowing the shooting of game farm animals on a game farm for a fee or other remuneration. Most of these cases sought declaratory and injunctive relief, but in some cases game farmers have alleged that I-143 takes their property without just compensation in violation of the state and federal constitutions, and in which they seek damages from the State for the alleged uncompensated taking. In two of the cases, Kafka v. Montana Department of Fish Wildlife, and Parks, Hill County Docket No. DV-02-059, and Buhmann et al. v. State of Montana et al., Lewis and Clark Docket No. DV-2002-555, the trial courts entered judgment in favor of the State on the taking claims, the Montana Supreme Court has affirmed that judgment, and the United States Supreme Court has denied further review. Five other cases have been dismissed. In the only remaining active case, Spoklie v. Montana Department of Fish, Wildlife and Parks, Sheridan County Docket No. 11013, the State intends to move for summary judgment. In the opinion of counsel, good defenses exist to all claims, and the possibility of an outcome adverse to the state is very remote.

In Terry Blanton v. DPHHS, filed in Montana Twentieth Judicial District Court, Lake County, Cause No. DV-06-37, a class-action lawsuit was filed on the part of plaintiffs who seek to "force DPHHS to obey federal Medicaid and anti-lien laws and the state 'made whole' doctrine." The lawsuit seeks payment from DPHHS of money allegedly wrongfully collected from third-party settlements or recoveries of Medicaid recipients. The lawsuit also seeks interest, costs, attorney fees, and declaratory and injunctive relief. On September 5, 2007, the court issued an order granting class certification. There is currently no trial date and no pretrial schedule.

In 2009 both plaintiffs and defendant DPHHS filed motions for summary judgment. The court granted partial summary judgment to plaintiffs on certain issues, primarily liability issues. In the fall of 2009 defendant DPHHS submitted a report to the court concerning each Medicaid reimbursement file of each class member with a breakdown of how third party awards were apportioned. DPHHS also requested Rule 54(b) certification on four orders of the district court resolving various liability issues in plaintiffs' favor, for the purpose of appealing to the Montana Supreme Court. On April 20, 2010, the district court granted Rule 54(b) certification on the four orders it had issued affecting liability issues. On May 6, 2010 DPHHS filed a Notice of Appeal. Briefing is scheduled to be completed by November 17, 2010.

At this time, counsel for DPHHS does not believe it is possible to make a reasonable assessment of the likelihood of plaintiffs' success on the merits. In addition, the fiscal impact on the State, should the plaintiffs prevail, and the amount of any potential award of attorney fees and costs, is not determinable at this time.

Coles, Individually and as Personal Representative for the Estate of Steven Bearcrane v. Black Ranches, Inc., Crow Tribal Court No. CAV 07-044, is a tort case filed against a policy holder of Montana State Fund. The case involves a wrongful death claim by the estate of an employee of the policyholder. Montana State Fund is providing a defense under a complete reservation of rights to the policy holder under Part Two of the State Fund's insurance policy, also

known as employers' liability coverage. The policy limits in this case are $1,000,000. The exclusive remedy provisions of MCA Section 39-71-411 should this type of tort claim against the policy holder. However, if the plaintiffs are successful in convincing the court that MCA Section 39-71-411 does not provide a defense, and that employer-policyholder was at fault in causing the death of its employee, the damages may be substantial. The case was dismissed at the Crow Tribal Court level, and has been appealed to the Crow Tribal Appellate Court. The actual potential costs impact to the State Fund is not know at this time. Liability for Montana State Fund, up to its policy limits ($1,000,000), is reasonably possible.

In October 2008 a lawsuit, Diaz et al. v. Blue Cross and Blue Shield of Montana et al., was filed in the Montana First Judicial District Court, Lewis and Clark County, Cause No. BVD-2008-956, by plaintiffs Jeanette Diaz, Leah Hoffman Berhardt, Rachel Laudon, individually and on behalf of others similarly situated, naming Blue Cross and Blue Shield of Montana, New West Health Services, Montana Comprehensive Health Association, State of Montana, and John Does 1-100 of Montana as defendants. The complaint alleges that the defendants have violated the "made whole" law of Montana and illegally given themselves subrogation rights. In December 2009, the District Court denied plaintiffs' motion requesting a class action. Plaintiffs appealed this decision to the Montana Supreme Court, and in October 2010 the Montana Supreme Court issued its decision. The decision did not rule on the class action issue but instead returned the case to the District Court to determine whether the "made whole" laws apply to the various types of third party administrators involved in the case (e.g. Blue Cross and Blue Shield and New West). At this time it is difficult to predict an outcome and monetary effect to the state because the state provides its insurance on a self-insured basis, which is different from a 2009 Montana Supreme Court case involving Blue Cross and Blue Shield of Montana in its private insurer capacity, and because the class issue remains outstanding.

W.R. Grace & Co Litigation – The Risk Management and Tort Defense Division disclosure of pending or threatened litigation includes approximately 1,400 claims against the State of Montana alleging that the State failed to warn of the hazards of asbestos associated with the operations of W.R. Grace & Co. in Lincoln County Montana.

There is a reasonable possibility that claims against the State could be resolved during fiscal year 2011. Court approval will be required for any such resolution of claims, and if that occurs the State may be required to make payments in settlement of claims during fiscal year 2011. If the State is required to make a settlement payment from the Administration Self Insurance Funds, discussed in Note 8 (B) (2), the State will seek reimbursement of that payment from its insurers, W.R. Grace, and any trust established in the W.R. Grace Bankruptcy, which is about to conclude. Because of unresolved legal and factual issues and the possibility of reimbursement it has not been possible reasonably to estimate the potential loss.

A complaint was filed in July 2009, SBC Archway III, LLC v. State of Montana in Montana First Judicial District Court, Lewis and Clark County, Cause No. BDV 1109-688, arising from the State's termination of three, 30-year "build to suit" leases with the developer following the 2009 legislature's rejection of funding for the leases in the 2010-11 biennium. The developer has purchased the property and prepared architectural plans for the building, but had not yet begun construction of the building at the time the leases were terminated. The developer is seeking damages including the cost of the property acquisition (purchase price of $1.9 million, lost profits for the 30-year lease term, delay damages, and other costs incurred prior to lease termination). The case is currently in the discovery phase of litigation. In the opinion of counsel, the State has numerous strong defenses to the suit, including the contractual right to terminate in the event of a reduction of funds for the purposes of the leases and the 2009 legislature's rejection of funding for the leases. If the plaintiff were to prevail, the fiscal impact on the State is not determinable at this time.

Shattuck and others similarly situated v. Kalispell Regional Medical Center, Inc., Blue Cross And Blue Shield Of Montana, and the State Of Montana , Montana Supreme Court Docket No. DA 10-0486, Lewis and Clark County Docket No ADV-2008-53. This matter is before the Montana Supreme Court on interlocutory appeal of the District Court's ruling that the Montana Children's Health Insurance Plan/Healthy Montana Kids is an insurance covered by the "made whole" doctrine. The State's position is that CHIP/HMK is a public assistance program, not insurance governed by Title 33, MCA, and that the made whole doctrine does not apply to it. The State expects to prevail on this issue. The State also raised the Plaintiff's standing to bring the State in as a Defendant because the State asserted no claim for recovery against this Plaintiff and therefore no loss is associated this claim. Plaintiff seeks to have the lawsuit certified as a class action, however, which has not occurred. DPHHS cannot reasonably estimate a loss associated with a class action in this matter.

**B. Federal Contingencies**

Food Distribution Program - The amount reported for Food Distribution programs (CFDA #10.550, #10.567, #10.569, #10.570 and #10.565 and #93.053) represents the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. Montana also distributes food commodities to other states in the western region of the United States, the value of which is excluded from the reported amounts. During fiscal year 2010, Montana distributed $416,694 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed $8,534,859 in commodities in fiscal year 2010. The value at June 30, 2010 of commodities stored at the state's warehouse is $1,750,231 for which the state is liable in the event of loss. The state has insurance to cover this liability.

**C. Miscellaneous Contingencies**

Loan Enhancements – As of June 30, 2010, the Board of Investments (BOI) had provided loan enhancements from the Coal Severance Tax Permanent Trust Fund to the Municipal Finance Consolidation Act Bond Fund and the Facility Finance Authority, (a component unit of the State of Montana), totaling $197,444,677. The BOI's exposure to bond issues of the Municipal Finance Consolidation Act Bond Fund was $96,325,000, while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority was $101,119,677.

Gain Contingencies - Certain natural resource and corporation tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 2010, the following assessments (by fund type) were outstanding (in thousands):

| Taxes | General | State Special Revenue |
|---|---|---|
| Corporation Tax | $70,119 | - |
| Oil and Gas Production Tax | $323 | $53 |
| Total | $70,442 | $53 |

Collectability of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. The corporation tax assessments include material estimates that could result in a significant reduction of the tax assessed once actual numbers are provided. Interest related to corporation tax assessments is distributed to the General Fund and is included in the assessment total above.

The oil and gas production tax noted above represents the state portion of the total protested amount of $699,995 (in thousands).

Loss Contingencies – Certain corporations have requested refunds that are not reported on the State's financial statements as of June 30, 2010. The corporations have appealed the department's decision to deny or adjust the refund. As of June 30, 2010, these include $3,096,613 of General Fund corporation tax refunds.

Certain companies have protested property taxes that have been included as revenue on the State's financial statements as of June 30, 2010. As of June 30, 2010, these include $3,815,278 of protested property taxes recorded in the General Fund and $4,310,159 recorded in State Special Revenue Funds.

## NOTE 17. SUBSEQUENT EVENTS

**Bond/Loan Issues**

Montana Facility Finance Authority had the following bond issues. On August 11, 2010 two bond issues totaling $17,855,000 were closed for Powell Community Memorial Hospital. Proceeds will be used to construct a replacement hospital in Deer Lodge. On October 28, 2010 two series of bonds totaling $33,080,000 were issued for Barrett Hospital Development Corporation. Proceeds will be used to finance the construction of a new hospital in Dillon. On November 23, 2010 $57,115,000 of bonds were issued for Kalispell Regional Medical Center. Proceeds will be used to expand, remodel and enlarge its surgical services tower and refinance existing bonds.

On July 1, 2010, the Board called all of the outstanding Montana Board of Housing Multi-family Mortgage Bonds 1996 Series A. The bonds, in the principal amount of $660,000, were redeemed at 100.00% together with interest accrued to the redemption date.

On December 9, 2009, the Board of Housing agreed to participate in the U.S. Treasury New Issue Bond Program (NIBP) of the Housing Finance Agency Initiative and created a new indenture, Single Family XI Homeownership, for that purpose. The Board issued $150,000,000.00 of bonds, 2009 Series A, and escrowed the proceeds as required by the agreement with U.S. Treasury. Originally, the program was to expire on December 31, 2010, and any remaining 2009 Series A bonds not converted to NIBP mortgage revenue bonds were to be redeemed by December 31, 2009. However, on September 1, 2010, the U.S. Department of Treasury extended the NIBP escrow draw period to December 31, 2011 from December 31, 2010 which extends the period these funds are available to the Board by one calendar year.

As part of the NIBP, the Board of Housing is purchasing eligible Montana single family residential mortgages. The Board is financing these mortgage purchases with the participation of the Federal Home Loan Bank (FHLB) of Seattle through a short-term financing agreement. On August 17, 2010, the Board drew $8,000,000 from FHLB of Seattle for the purpose of funding mortgage purchases.

On November 10, 2010, the State of Montana issued $550,000 General Obligation Long-Range Building Program Bonds, Series 2010G. This obligation was authorized by the 59th Montana Legislature in House Bill 540.

Prior to September 10, 2010, The Montana State University's Series J bonds had been outstanding as Variable Rate Demand Obligations (VRDOs) enhanced by a Wells Fargo Bank letter of Credit. Because the letter of credit was scheduled to terminate in September of 2010, The University sought pricing on a renewed letter of credit as well as a direct-placement transaction. After reviewing several options, the University selected the direct-placement transaction, and on September 10, 2010, amended its bond indenture to permit issuance of the Series J bonds in the indexed floater mode, and re-issued the bonds in whole to Wells Fargo Bank. In place of a letter of credit fee, the University now pays Wells Fargo Bank a pre-determined basis point spread over and above the SIFMA weekly indexed rate.

On October 21, 2010, the Board of Regents of Higher Education for the State of Montana authorized the University to issue a total of approximately $65 million of Series K 2010 (Taxable and Tax Exempt) Refunding Revenue Bonds. The bonds were subsequently issued on December 6, 2010. The bond proceeds from the sale of the Series K 2010 bonds will provide funds to defease all or a portion of the University's outstanding Series E 1998 Bonds and Series F 1999 Bonds, and pay costs associated with the bond issuance.

The Department of Natural Resources and Conservation issued General Obligation Bonds (G.O.) on November 10, 2010. The Series 2010 F Bonds were for $21,000,000. These taxable bond proceeds were issued to purchase land in Montana. The proceeds will be used to generate revenue for the school trust program and provide recreation to Montanans. The Series 2010 H Bonds were issued for $1,000,000. These taxable bond proceeds were issued to fund the Best Management Practices loan program. Loans are made to individuals performing land best management practices for example: putting in an irrigation system. The borrower repayments pay the bonds.

The Department of Natural Resources and Conservation issued Coal Severance Tax (CST) A Bonds on September 30, 2010 for $10,180,000. These bond proceeds were used to refund the 2001 D CST Bonds for the Broadwater

power plant at Toston Dam. The 2010 B CST Bonds were issued for $1,730,000. These bond proceeds were used to fund projects approved in HB 8 by the 2009 Legislature for natural resource projects around the state. The 2010 C CST Bonds were issued for $6,720,000. These bond proceeds were used to rehabilitate the Ruby Dam owned by the State of Montana.

**Investment Related Issues**
On July 6, 2010, the Board of Investments received an Axon Financial Funding payment of $1,963,523 representing $1,927,853 in principal and interest compensation of $35,670 in excess of the accrued interest receivable. Subsequent to this payment, Axon Financial Funding foreclosed with the issuance of a July 6, 2010 promissory note for $66,832,436 from AFF Financing LLC. On August 27, 2010 the Board received $168,824 from Axon Financial Funding reserves. A payment of $498,605 representing $480,598 in principal and $18,007 in interest was received from AFF financing on September 8, 2010. On October 7, 2010, AFF Financing LLC paid $525,509 in principal and $13,714 in interest for a total payment of $539,223.

On September 28, 2010, the Board of Investment received an Orion Finance USA payment of $1,336,453 representing $1,290,897 in principal and $45,556 in interest compensation.

## NOTE 18. MATERIAL VIOLATIONS OF FINANCE-RELATED LEGAL PROVISIONS

**Constitutionality of Retirement Plan Funding**
The Montana Constitution, Article VIII, Section 15 states that public retirement systems shall be funded on an actuarially sound basis. As of June 30, 2010, the Public Employees Retirement System-Defined Benefit Retirement Plan (PERS-DBRP), Sheriffs Retirement System (SRS), Game Warden & Peace Officers Retirement System (GWPORS) and Teachers Retirement System (TRS) were not in compliance. Detailed information for the retirement plan can be found in Note 6.

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# REQUIRED SUPPLEMENTARY INFORMATION

**BUDGETARY COMPARISON SCHEDULE**
**GENERAL AND MAJOR SPECIAL REVENUE FUNDS**
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(amounts expressed in thousands)

| | GENERAL FUND | | | |
|---|---|---|---|---|
| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| **REVENUES** | | | | |
| Licenses/permits | $ 120,046 | $ 120,046 | $ 121,315 | $ 1,269 |
| Taxes: | | | | |
| Natural resource | 204,557 | 204,557 | 126,342 | (78,215) |
| Individual income | 840,263 | 840,263 | 700,078 | (140,185) |
| Corporate income | 115,638 | 115,638 | 90,763 | (24,875) |
| Property | 230,045 | 230,045 | 220,724 | (9,322) |
| Fuel | - | - | - | - |
| Other | 204,602 | 204,602 | 205,425 | 823 |
| Charges for services/fines/forfeits/settlements | 39,592 | 39,592 | 44,918 | 5,326 |
| Investment earnings | 9,311 | 9,311 | 4,035 | (5,276) |
| Sale of documents/merchandise/property | (1,708) | (1,708) | 247 | 1,955 |
| Rentals/leases/royalties | 1 | 1 | 1 | - |
| Contributions/premiums | - | - | - | - |
| Grants/contracts/donations | 4,918 | 4,918 | 8,508 | 3,590 |
| Federal | 29,169 | 29,169 | 35,005 | 5,836 |
| Federal indirect cost recoveries | 125 | 125 | 142 | 17 |
| Other revenues | 61 | 61 | 1,010 | 949 |
| Total revenues | 1,796,620 | 1,796,620 | 1,558,513 | (238,107) |
| **EXPENDITURES** | | | | |
| Current: | | | | |
| General government | 271,823 | 271,823 | 256,415 | 15,408 |
| Public safety/corrections | 264,010 | 264,010 | 251,725 | 12,285 |
| Transportation (Note RS-1) | 2,680 | 2,680 | 210 | 2,471 |
| Health/social services | 336,110 | 336,110 | 313,847 | 22,263 |
| Education/cultural | 806,142 | 806,142 | 731,577 | 74,565 |
| Resource/recreation/environment | 35,192 | 35,192 | 33,019 | 2,173 |
| Debt service: | | | | |
| Principal retirement | 479 | 479 | 347 | 132 |
| Interest/fiscal charges | - | - | 38 | (38) |
| Capital outlay (Note RS-1) | 6,927 | 6,927 | 5,660 | 1,268 |
| Total expenditures | 1,723,363 | 1,723,363 | 1,592,838 | 130,527 |
| Excess of revenue over (under) expenditures | 73,257 | 73,257 | (34,325) | (368,634) |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Insurance proceeds | 2,232 | 2,232 | - | (2,232) |
| General capital asset sale proceeds | 49 | 49 | 49 | - |
| Refunding bond issued | - | - | - | - |
| Payment to refunding bond escrow agent | - | - | - | - |
| Bond premium | - | - | - | - |
| Bond proceeds | - | - | - | - |
| Transfers in (Note 12) | 73,840 | 73,840 | 64,924 | (8,916) |
| Transfers out (Note 12) | (46,349) | (46,349) | (33,491) | 12,858 |
| Total other financing sources (uses) | 29,772 | 29,772 | 31,482 | 1,710 |
| Net change in fund balances (Budgetary basis) | 103,029 | 103,029 | (2,843) | (366,924) |
| **RECONCILIATION OF BUDGETARY/GAAP REPORTING** | | | | |
| 1. Securities lending income | - | - | 368 | 368 |
| 2. Securities lending costs | - | - | (127) | (127) |
| 3. Inception of lease/installment contract | - | - | 66 | 66 |
| 4. Adjustments for nonbudgeted activity | - | - | (82,970) | (82,970) |
| Net change in fund balances (GAAP basis) | 103,029 | 103,029 | (85,506) | (449,587) |
| Fund balance - July 1 | - | - | 418,517 | 418,517 |
| Prior period adjustments | - | - | (5,875) | (5,875) |
| Increase (decrease) in inventories | - | - | (130) | (130) |
| Fund balances - June 30 | $ 103,029 | $ 103,029 | $ 327,006 | $ (37,075) |

*The notes to the required supplementary information are an integral part of this schedule.*

| STATE SPECIAL REVENUE FUND | | | | FEDERAL SPECIAL REVENUE FUND | | | |
|---|---|---|---|---|---|---|---|
| ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| $ 176,044 | $ 176,044 | $ 160,496 | $ (15,548) | $ - | $ - | $ - | $ - |
| | | | | | | | |
| 287,291 | 287,291 | 120,872 | (166,419) | - | - | - | - |
| - | - | - | - | - | - | - | - |
| 10 | 10 | 6 | (4) | - | - | - | - |
| 14,888 | 14,888 | 14,564 | (324) | - | - | - | - |
| 196,733 | 196,733 | 204,373 | 7,640 | - | - | - | - |
| 100,691 | 100,691 | 96,119 | (4,572) | 1 | 1 | - | (1) |
| 105,410 | 105,410 | 142,311 | 36,901 | 47,651 | 47,651 | 36,735 | (10,916) |
| 7,753 | 7,753 | 23,216 | 15,463 | 806 | 806 | 112 | (694) |
| 7,106 | 7,106 | 5,413 | (1,693) | - | - | - | - |
| 2,173 | 2,173 | 603 | (1,570) | - | - | - | - |
| 20,569 | 20,569 | 19,706 | (863) | - | - | - | - |
| 15,213 | 15,213 | 14,974 | (239) | 106 | 106 | 100 | (6) |
| 12,086 | 12,086 | 13,407 | 1,321 | 2,103,791 | 2,103,791 | 2,028,860 | (74,931) |
| 68,470 | 68,470 | 59,387 | (9,083) | 84,070 | 84,070 | 53,363 | (30,707) |
| 140 | 140 | 2,950 | 2,810 | 2 | 2 | 131 | 129 |
| 1,014,577 | 1,014,577 | 878,397 | (136,180) | 2,236,427 | 2,236,427 | 2,119,301 | (117,126) |
| | | | | | | | |
| 350,310 | 350,310 | 285,312 | 64,998 | 211,168 | 211,168 | 133,435 | 77,733 |
| 74,010 | 74,010 | 73,398 | 612 | 29,106 | 29,106 | 12,737 | 16,369 |
| 303,266 | 303,266 | 239,147 | 64,119 | 462,213 | 462,213 | 392,470 | 69,743 |
| 156,430 | 156,430 | 126,669 | 29,761 | 1,470,060 | 1,470,060 | 1,232,264 | 237,796 |
| 132,302 | 132,302 | 159,730 | (27,428) | 318,818 | 318,818 | 288,841 | 29,977 |
| 235,231 | 235,231 | 166,084 | 69,147 | 174,847 | 174,847 | 87,227 | 87,620 |
| | | | | | | | |
| 2,702 | 2,702 | 378 | 2,324 | 724 | 724 | 202 | 522 |
| - | - | 8,890 | (8,890) | - | - | 19 | (19) |
| 72,772 | 72,772 | 19,059 | 53,713 | 164,583 | 164,583 | 46,764 | 117,819 |
| 1,327,023 | 1,327,023 | 1,078,667 | 248,356 | 2,831,519 | 2,831,519 | 2,193,959 | 637,560 |
| (312,446) | (312,446) | (200,270) | (384,536) | (595,092) | (595,092) | (74,658) | (754,686) |
| | | | | | | | |
| 4,684 | 4,684 | 616 | (4,068) | 14 | 14 | - | (14) |
| 226 | 226 | 212 | (14) | 4 | 4 | 4 | - |
| 8,050 | 8,050 | 8,050 | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | 319 | 319 | - | - | - | - |
| 4,119 | 4,119 | 3,800 | (319) | - | - | - | - |
| 290,184 | 290,184 | 275,130 | (15,054) | 11,413 | 11,413 | 6,201 | (5,212) |
| (92,347) | (92,347) | (11,352) | 80,995 | (136,637) | (136,637) | (38,255) | 98,382 |
| 214,916 | 214,916 | 276,775 | 61,859 | (125,206) | (125,206) | (32,050) | 93,156 |
| | | | | | | | |
| (97,530) | (97,530) | 76,505 | (322,677) | (720,298) | (720,298) | (106,706) | (661,530) |
| | | | | | | | |
| - | - | 647 | 647 | - | - | 12 | 12 |
| - | - | (248) | (248) | - | - | (4) | (4) |
| - | - | 63 | 63 | - | - | 42 | 42 |
| - | - | 52,184 | 52,184 | - | - | 118,821 | 118,821 |
| | | | | | | | |
| (97,530) | (97,530) | 129,151 | (270,031) | (720,298) | (720,298) | 12,163 | (542,659) |
| | | | | | | | |
| - | - | 1,399,584 | 1,399,584 | - | - | 19,908 | 19,908 |
| - | - | 4,139 | 4,139 | - | - | 44 | 44 |
| - | - | 1,979 | 1,979 | - | - | - | - |
| $ (97,530) | $ (97,530) | $ 1,534,853 | $ 1,135,671 | $ (720,298) | $ (720,298) | $ 32,115 | $ (522,707) |

# NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

## NOTE RSI-1. BUDGETARY REPORTING

### A. State Budget Process

The Montana Legislature meets in the odd-numbered years to prepare annual budgets for the next biennium. The constitution requires that legislative appropriations not exceed available revenues. The Legislature uses revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budget appropriations at the fund level. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the general, special revenue and capital projects funds, except for those special revenue funds from non-state and non-federal sources restricted by law or by the terms of an agreement. The level of budgetary control is established by fund type, except capital project funds, which are at project level. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor, and the Legislative Fiscal Division receives a copy. The Office of Budget and Program Planning (OBPP) and the Governor analyze the requests, establish priorities, and develop the requests into the executive budget request submitted to the Legislature. Joint appropriations subcommittee hearings are held, and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The Legislature generally enacts one bill to establish the majority of appropriations for the next two fiscal years. OBPP establishes appropriations for each program by accounting entity (fund) within an agency. The Legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution, or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. In the second year of the biennium, during the legislative session, the Legislature may authorize supplemental appropriations. The Governor, or designee, may approve budget amendments for non-general fund monies not available for consideration by the Legislature and for emergencies. In the accompanying financial schedule, original and final budget amounts are reported. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations may be continued into the next fiscal year when authorized by the Legislature or the Governor's office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued or encumbered. Fund balances are not reserved for reverted appropriations. For fiscal year 2010, reverted governmental fund appropriations were as follows: General Fund - $25.6 million, State Special Revenue Fund - $65.7 million, and Federal Special Revenue Fund - $87.3 million. Agencies are allowed to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of OBPP.

Appropriations for capital projects funds are not made on an annual basis, but are adopted on a project-length basis. Because these non-operating budgets primarily serve a management control purpose, and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

### B. Budget Basis

The Legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with GAAP. The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end; compensated absences, fixed assets and inventories purchased in proprietary funds; certain loans from governmental funds; and other miscellaneous nonbudgeted activity (e.g., bad-debt write-offs, etc.).

# REQUIRED SUPPLEMENTARY INFORMATION
## PENSION PLAN INFORMATION

**Pension Plan Information**
**Schedule of Funding Progress**
*(in thousands)*

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability(AAL) Entry Age (b) | Unfunded (UAAL) (b-a) | Funded Ratio (a/b) | Annual Covered Payroll (c) | UAAL as Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| **Single Employer System** | | | | | | |
| **JRS** | | | | | | |
| 6/30/2008 | 62,040 | 39,435 | (22,605) | 157% | 5,096 | (444%) |
| 6/30/2009 | 61,929 | 41,848 | (20,081) | 148% | 5,110 | (393%) |
| 6/30/2010 | 61,277 | 42,513 | (18,764) | 144% | 5,687 | (330%) |
| **HPORS** | | | | | | |
| 6/30/2008 | 101,500 | 134,683 | 33,183 | 75% | 10,866 | 305% |
| 6/30/2009 | 99,652 | 137,815 | 38,163 | 72% | 11,425 | 334% |
| 6/30/2010 | 97,204 | 151,177 | 53,973 | 64% | 13,036 | 414% |
| **Multiple Employer Systems** | | | | | | |
| **PERS-DBRP** | | | | | | |
| 6/30/2008 | 4,065,307 | 4,504,743 | 439,436 | 90% | 995,113 | 44% |
| 6/30/2009 | 4,002,212 | 4,792,819 | 790,607 | 84% | 1,043,215 | 76% |
| 6/30/2010 | 3,889,890 | 5,241,819 | 1,351,929 | 74% | 1,083,780 | 125% |
| **SRS** | | | | | | |
| 6/30/2008 | 199,453 | 204,549 | 5,096 | 98% | 47,196 | 11% |
| 6/30/2009 | 200,690 | 223,893 | 23,203 | 90% | 51,457 | 45% |
| 6/30/2010 | 200,739 | 246,734 | 45,995 | 81% | 54,681 | 84% |
| **GWPORS** | | | | | | |
| 6/30/2008 | 77,511 | 83,449 | 5,938 | 93% | 32,365 | 18% |
| 6/30/2009 | 81,177 | 92,155 | 10,978 | 88% | 36,023 | 30% |
| 6/30/2010 | 85,151 | 113,855 | 28,704 | 75% | 39,436 | 73% |
| **MPORS** | | | | | | |
| 6/30/2008 | 212,312 | 327,556 | 115,244 | 65% | 32,181 | 358% |
| 6/30/2009 | 214,345 | 345,261 | 130,916 | 62% | 34,687 | 377% |
| 6/30/2010 | 217,545 | 380,393 | 162,847 | 57% | 37,220 | 438% |
| **FURS** | | | | | | |
| 6/30/2008 | 206,127 | 287,218 | 81,091 | 72% | 29,158 | 278% |
| 6/30/2009 | 209,775 | 306,236 | 96,460 | 69% | 30,160 | 320% |
| 6/30/2010 | 213,755 | 335,463 | 121,708 | 64% | 33,339 | 365% |
| **TRS** (1) | | | | | | |
| 7/1/2008 | 3,159 | 4,110 | 794 | 79.9% | 689 | 115.2% |
| 7/1/2009 | 2,762 | 4,331 | 1,411 | 66.2% | 683 | 206.6% |
| 7/1/2010 | 2,956,600 | 4,518 | 1,561,600 | 65% | 747 | 209% |
| **Nonemployer Contributor** | | | | | | |
| **VFCA** | | | | | | |
| 6/30/2008 | 27,544 | 32,735 | 5,191 | 84% | N/A | N/A |
| 6/30/2009 | 27,226 | 33,548 | 6,322 | 81% | N/A | N/A |
| 6/30/2010 | 26,575 | 34,512 | 7,936 | 77% | N/A | N/A |

(1) For TRS, the unfunded actuarial accrued liability (UAAL) amount doesn't equal column b minus column a as the UAAL amount includes the present value of future university supplemental contributions.

# REQUIRED SUPPLEMENTARY INFORMATION
## OTHER POSTEMPLOYMENT BENEFITS PLAN INFORMATION (OPEB)

The State of Montana and the Montana University System (MUS) implemented Governmental Accounting Standards Board (GASB) Statements 43 and 45 as of June 30, 2008 (see Notes 2 and 7).

The State of Montana and MUS OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of an "implied rate" subsidy in the related financial statements and footnotes. While this liability is disclosed for financial statement purposes, it does not represent a legal liability of the State or any of its component units.

In accordance with GASB Statement 45, the following information is presented to reflect the funding progress of the Other Postemployment Benefits Plans.

**Other Postemployment Benefits Plan Information** (1)
**Schedule of Funding Progress**
*(in thousands)*

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability(AAL) Entry Age (b) | Unfunded (UAAL) (b-a) | Funded Ratio (a/b) | Annual Covered Payroll (c) | UAAL as Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| | | | **State Agent Multiple Employer Plan** | | | |
| 1/1/2007 | $ - | $ 449,321 | $ 449,321 | 0.00% | $519,969 | 86.41% |
| 1/1/2009 | $ - | $ 357,664 | $ 357,664 | 0.00% | $526,794 | 67.89% |
| | | | **MUS Agent Multiple Employer Plan** | | | |
| 7/1/2007 | $ - | $ 182,597 | $ 182,597 | 0.00% | $ 349,259 | 52.28% |
| 7/1/2009 | $ - | $ 183,230 | $ 183,230 | 0.00% | $ 386,751 | 47.40% |

(1) The State and the MUS implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, for the fiscal year ended June 30, 2008. Information for prior years is not available.

# SUPPLEMENTARY INFORMATION

**COMBINING BALANCE SHEET**
**NONMAJOR GOVERNMENTAL FUNDS - BY FUND TYPE**
JUNE 30, 2010
*(amounts expressed in thousands)*

| | DEBT SERVICE | CAPITAL PROJECTS | PERMANENT | TOTAL |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash/cash equivalents | $ 18,485 | $ 89,323 | $ 2,588 | $ 110,396 |
| Receivables (net) | 3,241 | 1,226 | 1,382 | 5,849 |
| Due from other funds | 7 | 1,410 | 50 | 1,467 |
| Equity in pooled investments | - | - | 301,457 | 301,457 |
| Long-term loans/notes receivable | 28,849 | - | - | 28,849 |
| Advances to other funds | 3,174 | - | - | 3,174 |
| Investments | 126 | 2,987 | 9,091 | 12,204 |
| Securities lending collateral | 80 | 1,909 | 23,338 | 25,327 |
| Total assets | 53,962 | 96,855 | 337,906 | 488,723 |
| **LIABILITIES AND FUND BALANCES** | | | | |
| Liabilities: | | | | |
| Accounts payable | 2 | 6,121 | 1 | 6,124 |
| Interfund loans payable | - | 560 | - | 560 |
| Due to other funds | 13 | 8,722 | 1,882 | 10,617 |
| Advances from other funds | 18,946 | - | - | 18,946 |
| Deferred revenue | 391 | 2 | - | 393 |
| Securities lending liability | 80 | 1,909 | 23,338 | 25,327 |
| Total liabilities | 19,432 | 17,314 | 25,221 | 61,967 |
| Fund balances: | | | | |
| Nonspendable | - | - | 183,739 | 183,739 |
| Restricted | 10,803 | - | 8,722 | 19,525 |
| Committed | 23,336 | 54,137 | 128,313 | 205,786 |
| Assigned | 391 | 34,384 | - | 34,775 |
| Unassigned | - | (8,980) | (8,089) | (17,069) |
| Total fund balances | 34,530 | 79,541 | 312,685 | 426,756 |
| Total liabilities and fund balances | $ 53,962 | $ 96,855 | $ 337,906 | $ 488,723 |

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**
**NONMAJOR GOVERNMENTAL FUNDS - BY FUND TYPE**
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
*(amounts expressed in thousands)*

| | DEBT SERVICE | CAPITAL PROJECTS | PERMANENT | TOTAL |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Licenses/permits | $ - | $ - | $ 415 | $ 415 |
| Taxes: | | | | |
| Natural resource | 682 | 5,180 | 820 | 6,682 |
| Other | - | 1,897 | - | 1,897 |
| Charges for services/fines/forfeits/settlements | 989 | 155 | 12,613 | 13,757 |
| Investment earnings | 9,518 | 202 | 33,669 | 43,389 |
| Securities lending income | 5 | 31 | 267 | 303 |
| Sale of documents/merchandise/property | 3,435 | - | - | 3,435 |
| Rentals/leases/royalties | - | - | 124 | 124 |
| Other revenues | (78) | (14) | - | (92) |
| Total revenues | 14,551 | 7,450 | 47,908 | 69,909 |
| **EXPENDITURES** | | | | |
| Current: | | | | |
| General government | - | 1,696 | - | 1,696 |
| Public safety/corrections | - | 382 | - | 382 |
| Health/social services | - | 1,020 | - | 1,020 |
| Education/cultural | - | - | 19 | 19 |
| Resource/recreation/environment | 14 | - | - | 14 |
| Debt service: | | | | |
| Principal retirement | 30,755 | - | - | 30,755 |
| Interest/fiscal charges | 17,430 | - | - | 17,430 |
| Capital outlay | - | 83,206 | 5 | 83,211 |
| Securities lending | 1 | 10 | 105 | 116 |
| Total expenditures | 48,200 | 86,314 | 129 | 134,643 |
| Excess of revenue over (under) expenditures | (33,649) | (78,864) | 47,779 | (64,734) |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| General capital asset sale proceeds | - | - | 6 | 6 |
| Proceeds of refunding bond | 20,220 | - | - | 20,220 |
| Payment to refunding bond escrow agent | (20,985) | - | - | (20,985) |
| Bonds premium | 975 | - | - | 975 |
| Transfers in | 45,982 | 45,435 | 1,299 | 92,716 |
| Transfers out | (8,903) | (4,031) | (12,704) | (25,638) |
| Total other financing sources (uses) | 37,289 | 41,404 | (11,399) | 67,294 |
| Net change in fund balances | 3,640 | (37,460) | 36,380 | 2,560 |
| Fund balances - July 1 - as previously reported | 30,890 | 124,976 | 276,305 | 432,171 |
| Prior period adjustments | - | (7,975) | - | (7,975) |
| Fund balances - July 1 - as restated | 30,890 | 117,001 | 276,305 | 424,196 |
| Fund balances - June 30 | $ 34,530 | $ 79,541 | $ 312,685 | $ 426,756 |

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# NONMAJOR DEBT SERVICE FUNDS

Debt service funds are used to account for the accumulation of resources for the payment of general long-term obligation principal and interest. A brief description of each debt service fund follows:

**Coal Tax** – This fund accounts for payments on special revenue renewable resource program (coal severance tax) bonds.

**Long-Range Building Program** – This fund accounts for payments on general obligation long-range building program bonds.

**Water & Wastewater Development** – This fund accounts for payments on the following general obligation bonds: wastewater treatment works revolving fund, renewable resource program, drinking water revolving fund, and water pollution control revolving fund.

**Water Conservation** – This fund accounts for payments on water conservation loans issued for the following projects: Little Dry and Petrolia.

**Health Care** – This fund accounts for payments on the following special revenue bonds: Montana State Hospital and Montana Developmental Center.

**Information Technology** – This fund accounts for payments on general obligation information technology bonds.

**Energy Conservation Program** – This fund accounts for payments on general obligation bonds issued for State Building Energy Conservation Projects.

**Environmental Reclamation** – This fund accounts for payments on the following general obligation bonds: hard rock mining reclamation and CERCLA program.

**Highway** – This fund accounts for payments on the U.S. Highway 93 GARVEES special revenue bonds.

**COMBINING BALANCE SHEET**
**NONMAJOR DEBT SERVICE FUNDS**
JUNE 30, 2010
*(amounts expressed in thousands)*

| | COAL TAX | LONG-RANGE BUILDING PROGRAM | WATER & WASTEWATER DEVELOPMENT | WATER CONSERVATION |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash/cash equivalents | $ 6,143 | $ 509 | $ 6,863 | $ - |
| Receivables (net) | 481 | - | 2,742 | - |
| Due from other funds | - | - | 7 | - |
| Long-term loans/notes receivable | 9,044 | - | 19,787 | 18 |
| Advances to other funds | 3,174 | - | - | - |
| Investments | - | - | 96 | - |
| Securities lending collateral | - | - | 61 | - |
| Total assets | 18,842 | 509 | 29,556 | 18 |
| **LIABILITIES AND FUND BALANCES** | | | | |
| Liabilities: | | | | |
| Accounts payable | - | 2 | - | - |
| Due to other funds | 11 | - | 2 | - |
| Advances from other funds | 1,944 | - | 17,002 | - |
| Deferred revenue | 85 | - | 305 | 1 |
| Securities lending liability | - | - | 61 | - |
| Total Liabilities | 2,040 | 2 | 17,370 | 1 |
| Fund balances: | | | | |
| Restricted | - | - | 6,577 | - |
| Committed | 16,802 | 116 | 5,609 | 17 |
| Assigned | - | 391 | - | - |
| Total fund balances | 16,802 | 507 | 12,186 | 17 |
| Total liabilities and fund balances | $ 18,842 | $ 509 | $ 29,556 | $ 18 |

| HEALTH CARE | ENERGY CONSERVATION PROGRAM | ENVIRONMENTAL RECLAMATION | TOTAL |
|---|---|---|---|
| $ 4,226 | $ 472 | $ 272 | $ 18,486 |
| - | 18 | - | 3,241 |
| - | - | - | 7 |
| - | - | - | 28,849 |
| - | - | - | 3,174 |
| - | 30 | - | 126 |
| - | 19 | - | 80 |
| 4,226 | 539 | 272 | 53,962 |
| | | | |
| - | - | - | 2 |
| - | - | - | 13 |
| - | - | - | 18,946 |
| - | - | - | 391 |
| - | 19 | - | 80 |
| - | 19 | - | 19,432 |
| | | | |
| 4,226 | - | - | 10,803 |
| - | 520 | 272 | 23,336 |
| - | - | - | 391 |
| 4,226 | 520 | 272 | 34,530 |
| $ 4,226 | $ 539 | $ 272 | $ 53,962 |

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**
**NONMAJOR DEBT SERVICE FUNDS**
JUNE 30, 2010
*(amounts expressed in thousands)*

| | COAL TAX | LONG-RANGE BUILDING PROGRAM | WATER & WASTEWATER DEVELOPMENT | WATER CONSERVATION |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Taxes: | | | | |
| Natural resource | $ - | $ - | $ 410 | $ - |
| Charges for services/fines/forfeits/settlements | - | - | 3 | - |
| Investment earnings | 415 | 5 | 8,884 | - |
| Securities lending income | 3 | 1 | 1 | - |
| Other revenues | - | (78) | - | - |
| Sale of documents/merchandise/property | 3,435 | - | - | - |
| Total revenues | 3,853 | (73) | 9,299 | - |
| **EXPENDITURES** | | | | |
| Current: | | | | |
| Resource/recreation/environment | - | - | - | - |
| Debt service: | | | | |
| Principal retirement | 2,380 | 12,245 | 1,730 | 5 |
| Interest/fiscal charges | 979 | 6,409 | 1,663 | 1 |
| Securities lending | 1 | - | - | - |
| Total expenditures | 3,360 | 18,654 | 3,393 | 6 |
| Excess of revenue over (under) expenditures | 493 | (18,727) | 5,906 | (6) |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Bond premium | - | 975 | - | - |
| Proceeds of refunding bond | - | 20,220 | - | - |
| Payment to refunding bond escrow agent | - | (20,985) | - | - |
| Transfers in | 2,526 | 18,292 | 3,852 | - |
| Transfers out | (3,822) | - | (5,081) | - |
| Total other financing sources (uses) | (1,296) | 18,502 | (1,229) | - |
| Net change in fund balances | (803) | (225) | 4,677 | (6) |
| Fund balances - July 1 - as previously reported | 17,605 | 732 | 7,509 | 23 |
| Prior period adjustments | - | - | - | - |
| Fund balances - July 1 - as restated | 17,605 | 732 | 7,509 | 23 |
| Fund balances - June 30 | $ 16,802 | $ 507 | $ 12,186 | $ 17 |

| HEALTH CARE | INFORMATION TECHNOLOGY | ENERGY CONSERVATION PROGRAM | ENVIRONMENTAL RECLAMATION | HIGHWAY | TOTAL |
|---|---|---|---|---|---|
| $ - | $ - | $ - | $ 272 | $ - | $ 682 |
| - | - | 985 | - | - | 988 |
| 213 | - | 2 | - | - | 9,518 |
| - | - | - | - | - | 5 |
| - | - | - | - | - | (78) |
| - | - | - | - | - | 3,435 |
| 213 | - | 987 | 272 | - | 14,551 |
| - | - | 9 | 5 | - | 14 |
| 1,680 | 2,400 | 705 | 270 | 9,340 | 30,755 |
| 1,264 | 57 | 230 | 186 | 6,641 | 17,430 |
| - | - | - | - | - | 1 |
| 2,944 | 2,457 | 944 | 461 | 15,981 | 48,200 |
| (2,731) | (2,457) | 41 | (189) | (15,981) | (33,649) |
| - | - | - | - | - | 975 |
| - | - | - | - | - | 20,220 |
| - | - | - | - | - | (20,985) |
| 2,680 | 2,457 | 5 | 189 | 15,981 | 45,982 |
| - | - | - | - | - | (8,903) |
| 2,680 | 2,457 | 5 | 189 | 15,981 | 37,289 |
| (51) | - | 46 | - | - | 3,640 |
| 4,277 | - | 472 | 272 | - | 30,890 |
| - | - | 1 | - | - | 1 |
| 4,277 | - | 473 | 272 | - | 30,890 |
| $ 4,226 | $ | $ 520 | $ 272 | $ | $ 34,530 |

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# NONMAJOR CAPITAL PROJECTS FUNDS

Capital project funds are used to account for financial resources used for the acquisition or construction of major governmental general capital assets. A brief description of each capital project fund follows:

**Long-Range Building Program** – This fund is maintained to account for resources received and expended for the State's long-range building program. The long-range building program includes costs for the acquisition, construction, and improvement of major capital assets financed by general obligation bonds and interest earned on bond proceeds.

**Information Technology Projects** – This fund accounts for resources received and expended for information technology projects for various upgrade and replacement activities.

**Federal/Private Construction Grants** – This fund accounts for federal grants, private donations, and federal matching funds that are restricted to general capital asset construction.

**Capital Land Grant** – This fund accounts for revenues and expenditures from the Capital Land Grant. Revenues are dedicated for the purpose of constructing capital buildings or additions thereto. Revenues may be transferred to a debt service fund for the payment of principal and interest on bonds issued for capital building construction.

**COMBINING BALANCE SHEET**
**NONMAJOR CAPITAL PROJECTS FUNDS**
JUNE 30, 2010
*(amounts expressed in thousands)*

| | LONG-RANGE BUILDING PROGRAM | INFORMATION TECHNOLOGY PROJECTS | FEDERAL/ PRIVATE CONSTRUCTION GRANTS | CAPITAL LAND GRANT | TOTAL |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash/cash equivalents | $ 82,703 | $ 5,947 | $ - | $ 673 | $ 89,323 |
| Receivables (net) | 1,224 | 2 | - | - | 1,226 |
| Due from other funds | 1,408 | - | - | 2 | 1,410 |
| Investments | 2,987 | - | - | - | 2,987 |
| Securities lending collateral | 1,909 | - | - | - | 1,909 |
| Total assets | 90,231 | 5,949 | - | 675 | 96,855 |
| **LIABILITIES AND FUND BALANCES** | | | | | |
| Liabilities: | | | | | |
| Accounts payable | 5,843 | 17 | 258 | 3 | 6,121 |
| Interfund loans payable | 560 | - | - | - | 560 |
| Due to other funds | - | - | - | 8,722 | 8,722 |
| Deferred Revenue | 2 | - | - | - | 2 |
| Securities lending liability | 1,909 | - | - | - | 1,909 |
| Total liabilities | 8,314 | 17 | 258 | 8,725 | 17,314 |
| Fund balances: | | | | | |
| Committed | 49,734 | 3,731 | - | 672 | 54,137 |
| Assigned | 32,183 | 2,201 | - | - | 34,384 |
| Unassigned | - | - | (258) | (8,722) | (8,980) |
| Total fund balances | 81,917 | 5,932 | (258) | (8,050) | 79,541 |
| Total liabilities and fund balances | $ 90,231 | $ 5,949 | $ - | $ 675 | $ 96,855 |

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**
**NONMAJOR CAPITAL PROJECTS FUNDS**
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
*(amounts expressed in thousands)*

| | LONG-RANGE BUILDING PROGRAM | INFORMATION TECHNOLOGY PROJECTS | FEDERAL/ PRIVATE CONSTRUCTION GRANTS | CAPITAL LAND GRANT | TOTAL |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| Taxes: | | | | | |
| Natural resource | $ 5,180 | $ - | $ - | $ - | $ 5,180 |
| Other | 1,897 | - | - | - | 1,897 |
| Charges for services/fines/forfeits/settlements | 155 | - | - | - | 155 |
| Investment earnings | 201 | - | - | - | 201 |
| Securities lending income | 31 | - | - | - | 31 |
| Other revenues | (14) | - | - | - | (14) |
| Total revenues | 7,450 | - | - | - | 7,450 |
| **EXPENDITURES** | | | | | |
| Current: | | | | | |
| General government | 569 | 1,127 | - | - | 1,696 |
| Public safety/corrections | - | 382 | - | - | 382 |
| Health/social services | 1,020 | - | - | - | 1,020 |
| Capital outlay | 67,133 | (66) | 13,098 | 3,041 | 83,206 |
| Securities lending | 10 | - | - | - | 10 |
| Total expenditures | 68,732 | 1,443 | 13,098 | 3,041 | 86,314 |
| Excess of revenue over (under) expenditures | (61,282) | (1,443) | (13,098) | (3,041) | (78,864) |
| **OTHER FINANCING SOURCES (USES)** | | | | | |
| Transfers in | 25,573 | 5,083 | 13,143 | 1,636 | 45,435 |
| Transfers out | (3,943) | (25) | - | (63) | (4,031) |
| Total other financing sources (uses) | 21,630 | 5,058 | 13,143 | 1,573 | 41,404 |
| Net change in fund balances | (39,652) | 3,615 | 45 | (1,468) | (37,460) |
| Fund balances - July 1 - as previously reported | 121,569 | 1,570 | (303) | 2,140 | 124,976 |
| Prior period adjustments | - | 747 | - | (8,722) | (7,975) |
| Fund balances - June 30 | $ 81,917 | $ 5,932 | $ (258) | $ (8,050) | $ 79,541 |

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# NONMAJOR PERMANENT FUNDS

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used to support state government programs. A brief description of each permanent fund follows:

**Resource Indemnity** – Taxes paid by persons engaging in or carrying on the business of mining, extracting, or producing minerals are deposited in this fund. Only the net earnings of the trust may be appropriated until the principal reaches $100 million. Interest earnings are expended from a special revenue fund. This fund is administered by the Department of Revenue.

**Parks Trust and Cultural Trust** – A portion of coal severance taxes are credited to these funds by the Department of Revenue. Income from the trusts is used for the acquisition and maintenance of state parks and historical sites by the Department of Fish, Wildlife and Parks. The Montana Arts Council uses income from the trusts for the protection of works of art in the State Capitol and for other cultural projects.

**Real Property Trust** – Money received by the Department of Fish, Wildlife and Parks from the sale of real property; the exploration and development of oil, gas, and mineral deposits; and leasing department real property is deposited in this fund. Interest is recorded in a special revenue fund and used for developing and maintaining real property of the department.

**Noxious Weed Management** – The Department of Agriculture accounts for revenues and interest earned on fees charged for the control of noxious weeds.

**Historical Society Trusts** – The fund accounts for memorials, bequests, and various other contributions to the Montana Historical Society. Includes the following trust funds: James H. Bradley Memorial, Thomas Teakle, Merritt-Wheeler Memorial, Historical Society Acquisitions, Sobotka Memorial, and Edger I. and Jane R. Stewart.

**PHHS Trusts** – This fund provides services and activities related to a broad range of child abuse and neglect prevention activities operated by non-profit or public community educational and service organizations.

**Tobacco Settlement Interest** – This fund holds interest earned by investing the Tobacco Settlement Principal.

**Zortman/Landusky Water Treatment** – This fund provides for long-term or perpetual water treatment at the Zortman and Landusky mine sites.

**COMBINING BALANCE SHEET**
**NONMAJOR PERMANENT FUNDS**
JUNE 30, 2010
*(amounts expressed in thousands)*

| | RESOURCE INDEMNITY | PARKS TRUST | CULTURAL TRUST | REAL PROPERTY TRUST |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash/cash equivalents | $ 408 | $ 227 | $ 141 | $ 794 |
| Receivables (net) | 424 | 199 | 104 | 57 |
| Due from other funds | - | - | - | - |
| Equity in pooled investments | 107,492 | 20,669 | 11,497 | 14,237 |
| Investments | 26 | 16 | 9 | 49 |
| Securities lending collateral | 6,090 | 1,177 | 655 | 836 |
| Total assets | 114,440 | 22,288 | 12,406 | 15,973 |
| **LIABILITIES AND FUND BALANCES** | | | | |
| Liabilities: | | | | |
| Accounts payable | - | - | 1 | - |
| Due to other funds | 835 | - | 45 | - |
| Securities lending liability | 6,090 | 1,177 | 655 | 836 |
| Total liabilities | 6,925 | 1,177 | 701 | 836 |
| Fund balances: | | | | |
| Nonspendable | 107,023 | 21,111 | 11,705 | 15,137 |
| Restricted | - | - | - | - |
| Committed | 492 | - | - | - |
| Unassigned | - | - | - | - |
| Total fund balances | 107,515 | 21,111 | 11,705 | 15,137 |
| Total liabilities and fund balances | $ 114,440 | $ 22,288 | $ 12,406 | $ 15,973 |

| NOXIOUS WEED MANAGEMENT | HISTORICAL SOCIETY TRUSTS | DPHHS TRUSTS | TOBACCO SETTLEMENT INTEREST | ZORTMAN/ LANDUSKY WATER TREATMENT | TOTAL |
|---|---|---|---|---|---|
| $ 718 | $ 125 | $ 88 | $ 60 | $ 27 | $ 2,588 |
| 53 | 3 | 42 | 499 | 1 | 1,382 |
| - | - | - | 50 | - | 50 |
| 9,340 | 1,112 | 10,570 | 126,540 | - | 301,457 |
| 1,184 | 5 | 5 | 4 | 7,793 | 9,091 |
| 857 | 85 | 601 | 7,152 | 5,885 | 23,338 |
| 12,152 | 1,330 | 11,306 | 134,305 | 13,706 | 337,906 |
| | | | | | |
| - | - | - | - | - | 1 |
| 503 | - | - | 499 | - | 1,882 |
| 857 | 85 | 601 | 7,152 | 5,885 | 23,338 |
| 1,360 | 85 | 601 | 7,651 | 5,885 | 25,221 |
| | | | | | |
| 10,159 | 1,245 | 9,538 | - | 7,821 | 183,739 |
| 8,722 | - | - | - | - | 8,722 |
| - | - | 1,167 | 126,654 | - | 128,313 |
| (8,089) | - | - | - | - | (8,089) |
| 10,792 | 1,245 | 10,705 | 126,654 | 7,821 | 312,685 |
| $ 12,152 | $ 1,330 | $ 11,306 | $ 134,305 | $ 13,706 | $ 337,906 |

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**
**NONMAJOR PERMANENT FUNDS**
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
*(amounts expressed in thousands)*

| | RESOURCE INDEMNITY | PARKS TRUST | CULTURAL TRUST | REAL PROPERTY TRUST |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Licenses/permits | $ - | $ - | $ - | $ 415 |
| Taxes: | | | | |
| Natural resource | - | 548 | 272 | - |
| Charges for services/fines/forfeits/settlements | - | - | - | - |
| Investment earnings | 12,157 | 2,302 | 1,286 | 1,577 |
| Securities lending income | 93 | 18 | 10 | 12 |
| Rentals/leases/royalties | - | - | - | 124 |
| Total revenues | 12,250 | 2,868 | 1,568 | 2,128 |
| **EXPENDITURE** | | | | |
| Current: | | | | |
| Education/cultural | - | - | 3 | - |
| Capital outlay | - | - | - | - |
| Securities lending | 37 | 7 | 4 | 5 |
| Total expenditures | 37 | 7 | 7 | 5 |
| Excess of revenue over (under) expenditures | 12,213 | 2,861 | 1,561 | 2,123 |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| General capital asset sale proceeds | - | - | - | 6 |
| Transfers in | - | - | - | 1 |
| Transfers out | (5,213) | (829) | (553) | (567) |
| Total other financing sources (uses) | (5,213) | (829) | (553) | (560) |
| Net change in fund balances | 7,000 | 2,032 | 1,008 | 1,563 |
| Fund balances - July 1 - as previously reported | 100,515 | 19,079 | 10,697 | 13,574 |
| Fund balances - July 1 - as restated | 100,515 | 19,079 | 10,697 | 13,574 |
| Fund balances - June 30 | $ 107,515 | $ 21,111 | $ 11,705 | $ 15,137 |

| NOXIOUS WEED MANAGEMENT | HISTORICAL SOCIETY TRUSTS | DPHHS TRUSTS | TOBACCO SETTLEMENT INTEREST | ZORTMAN/ LANDUSKY WATER TREATMENT | TOTAL |
|---|---|---|---|---|---|
| $ - | $ - | $ - | $ - | $ - | $ 415 |
| - | - | - | - | - | 820 |
| - | - | - | 12,613 | - | 12,613 |
| 1,116 | 142 | 1,162 | 13,082 | 845 | 33,669 |
| 10 | 1 | 9 | 100 | 14 | 267 |
| - | - | - | - | - | 124 |
| 1,126 | 143 | 1,171 | 25,795 | 859 | 47,908 |
| - | 16 | - | - | - | 19 |
| - | 5 | - | - | - | 5 |
| 4 | - | 4 | 39 | 5 | 105 |
| 4 | 21 | 4 | 39 | 5 | 129 |
| 1,122 | 122 | 1,167 | 25,756 | 854 | 47,779 |
| - | - | - | - | - | 6 |
| 98 | - | - | () | 1,200 | 1,299 |
| (503) | - | - | (5,039) | - | (12,704) |
| (405) | - | - | (5,039) | 1,200 | (11,399) |
| 717 | 122 | 1,167 | 20,717 | 2,054 | 36,380 |
| 10,075 | 1,123 | 9,538 | 105,937 | 5,767 | 276,305 |
| 10,075 | 1,123 | 9,538 | 105,937 | 5,767 | 276,305 |
| $ 10,792 | $ 1,245 | $ 10,705 | $ 126,654 | $ 7,821 | $ 312,685 |

# NONMAJOR ENTERPRISE FUNDS

Enterprise funds are used to account for operations that provide goods or services to the public on a user charge basis. A brief description of each enterprise fund follows:

**Liquor Warehouse** – This fund accounts for activities related to the sale and distribution of alcoholic beverages and licensing within the State. Profits and license fees are used to finance General Fund expenditures.

**Hail Insurance** – Any producer engaged in the growing of crops subject to damage by hail may participate in the hail insurance program. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and benefits paid by the Department of Agriculture.

**State Lottery** – This fund accounts for the operations of Montana's lottery.

**Prison Industries** – These operations provide training and employment for inmates. The products produced are sold to state agencies, non-profit organizations, and other customers in accordance with state policies.

**MUS Group Insurance** – This fund accounts for employee contributions to the Montana University System's medical/dental self-insurance plan.

**MUS Workers Compensation** – This fund accounts for self-insured workers compensation coverage for employees of the Montana University System.

**Subsequent Injury** – This fund accounts for the assessments collected from employers and benefits paid to workers who are certified as vocationally handicapped and are injured on the job.

**Secretary of State Business Services** – This fund accounts for the Business and Government Services activities and the Administrative Code Program of the Secretary of State's Office.

**Historical Society Publications** – This fund accounts for the Historical Society's sales from "Montana, The Magazine of Western History"; books; publications; and merchandise from the Historical Society store.

**Surplus Property** – The Department of Administration accounts for intragovernmental sales of state and federal surplus property to state agencies, local governments, and designated non-profit organizations.

**West Yellowstone Airport** – This fund, administered by the Department of Transportation, accounts for operations of the airport at West Yellowstone. User airlines are assessed rental and landing fees.

**Local Government Audits** – This fund accounts for the costs incurred by the Department of Administration for audits of local governments, required under Sections 2-7-501 through 522 of the Montana Code Annotated, and the fees assessed the local governments for the audits.

**Flexible Spending Administration** – This fund accounts for the fees collected from the participants in the Flexible Spending Programs and the related administrative costs of the plans administered by the Department of Administration and the Office of the Commissioner of Higher Education.

**HUD Section 8 Housing** – This fund accounts for a program that provides rental assistance to low-income families throughout Montana.

**Other Enterprise Funds** – This category includes several small enterprise funds administered by various agencies.

**COMBINING STATEMENT OF NET ASSETS**
**NONMAJOR ENTERPRISE FUNDS**
JUNE 30, 2010
*(amounts expressed in thousands)*

| | LIQUOR WAREHOUSE | HAIL INSURANCE | STATE LOTTERY | PRISON INDUSTRIES |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current assets: | | | | |
| Cash/cash equivalents | $ 2,746 | $ 12,177 | $ 2,996 | $ 1,991 |
| Receivables (net) | 17,246 | 4,591 | 3,412 | 235 |
| Interfund loans receivable | - | - | - | - |
| Due from other governments | - | - | - | - |
| Due from component units | - | - | - | 8 |
| Inventories | 93 | - | 528 | 1,814 |
| Securities lending collateral | - | 444 | 46 | - |
| Other current assets | 25 | - | 90 | 15 |
| Total current assets | 20,110 | 17,212 | 7,072 | 4,063 |
| Noncurrent assets: | | | | |
| Advances to other funds | 75 | - | - | - |
| Long-term investments | - | 694 | 71 | - |
| Long-term notes/loans receivable | - | - | - | - |
| Other long-term assets | - | - | 1,430 | 293 |
| Capital assets: | | | | |
| Land | - | - | - | 690 |
| Land improvements | - | - | - | 731 |
| Buildings/improvements | 2,044 | - | 45 | 4,760 |
| Equipment | 528 | - | 1,461 | 4,038 |
| Infrastructure | - | - | - | 915 |
| Construction in progress | - | - | - | 54 |
| Intangible assets | - | 61 | - | - |
| Other Depreciable Assets | - | - | - | 3,145 |
| Less accumulated depreciation | (1,821) | - | (456) | (6,419) |
| Total capital assets | 751 | 61 | 1,050 | 7,914 |
| Total noncurrent assets | 826 | 755 | 2,551 | 8,207 |
| Total assets | $ 20,936 | $ 17,967 | $ 9,623 | $ 12,270 |

| MUS GROUP INSURANCE | MUS WORKERS COMPENSATION | SUBSEQUENT INJURY | SECRETARY OF STATE BUSINESS SERVICES | HISTORICAL SOCIETY PUBLICATIONS | SURPLUS PROPERTY |
|---|---|---|---|---|---|
| $ 32,456 | $ 14,865 | $ 583 | $ 2,775 | $ 122 | $ 17 |
| 373 | 5 | 103 | 27 | 6 | 795 |
| - | - | - | 3 | - | - |
| - | - | - | 7 | - | - |
| - | - | 25 | - | - | - |
| - | - | - | 24 | 464 | 333 |
| 1,305 | 563 | 20 | 109 | - | - |
| 333 | 225 | - | - | - | - |
| 34,467 | 15,658 | 731 | 2,945 | 592 | 1,145 |
| | | | | | |
| - | - | - | - | - | - |
| 2,042 | 880 | 50 | 171 | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| | | | | | |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | 118 |
| - | - | - | 461 | 11 | 123 |
| - | - | - | - | - | - |
| - | - | - | 1,483 | - | - |
| - | - | - | 16 | - | - |
| - | - | - | - | - | - |
| - | - | - | (290) | (10) | (168) |
| - | - | - | 1,670 | 1 | 73 |
| 2,042 | 880 | 50 | 1,841 | 1 | 73 |
| $ 36,509 | $ 16,538 | $ 781 | $ 4,786 | $ 593 | $ 1,218 |

*(Continued on Next Page)*

**COMBINING STATEMENT OF NET ASSETS**
**NONMAJOR ENTERPRISE FUNDS**
JUNE 30, 2010
*(amounts expressed in thousands)*

| | WEST YELLOWSTONE AIRPORT | LOCAL GOVERNMENT AUDITS | FLEXIBLE SPENDING ADMINISTRATION |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets: | | | |
| Cash/cash equivalents | $ 203 | $ 404 | $ 1,794 |
| Receivables (net) | - | 2 | - |
| Interfund loans receivable | 106 | - | - |
| Due from other governments | - | - | - |
| Due from component units | - | - | - |
| Inventories | - | - | - |
| Securities lending collateral | - | - | 23 |
| Other current assets | - | - | - |
| Total current assets | 309 | 406 | 1,817 |
| Noncurrent assets: | | | |
| Advances to other funds | - | - | - |
| Long-term investments | - | - | 36 |
| Long-term notes/loans receivable | - | - | - |
| Other long-term assets | - | - | - |
| Capital assets: | | | |
| Land | 110 | - | - |
| Land improvements | 3,099 | - | - |
| Buildings/improvements | 487 | - | - |
| Equipment | 454 | - | - |
| Infrastructure | - | - | - |
| Construction in progress | - | - | - |
| Intangible assets | - | - | - |
| Other Depreciable Assets | - | - | - |
| Less accumulated depreciation | (1,241) | - | - |
| Total capital assets | 2,909 | - | - |
| Total noncurrent assets | 2,909 | - | 36 |
| Total assets | $ 3,218 | $ 406 | $ 1,853 |

| | HUD SECTION 8 HOUSING | OTHER ENTERPRISE FUNDS | TOTAL |
|---|---|---|---|
| | $ 6,475 | $ 1,342 | $ 80,946 |
| | 146 | 26 | 26,967 |
| | 22 | - | 131 |
| | 938 | 12 | 957 |
| | - | - | 33 |
| | - | 122 | 3,378 |
| | 261 | 6 | 2,777 |
| | - | - | 688 |
| | 7,842 | 1,508 | 115,877 |
| | - | - | 75 |
| | 409 | 10 | 4,363 |
| | 304 | - | 304 |
| | - | - | 1,723 |
| | - | - | 800 |
| | - | - | 3,830 |
| | - | - | 7,454 |
| | 52 | 165 | 7,293 |
| | - | - | 915 |
| | - | - | 1,537 |
| | 7 | 7 | 91 |
| | - | - | 3,145 |
| | (47) | (80) | (10,532) |
| | 12 | 92 | 14,533 |
| | 726 | 102 | 20,998 |
| | $ 8,568 | $ 1,610 | $ 136,875 |

*(Continued on Next Page)*

**COMBINING STATEMENT OF NET ASSETS**
**NONMAJOR ENTERPRISE FUNDS**
JUNE 30, 2010
*(amounts expressed in thousands)*

| | LIQUOR WAREHOUSE | HAIL INSURANCE | STATE LOTTERY | PRISON INDUSTRIES |
|---|---|---|---|---|
| **LIABILITIES** | | | | |
| Current liabilities: | | | | |
| Accounts payable | $ 5,739 | $ 14 | $ 1,028 | $ 203 |
| Lottery prizes payable | - | - | 2,570 | - |
| Interfund loans payable | - | - | - | - |
| Due to other governments | - | - | - | - |
| Due to other funds | 12,848 | 79 | 2,572 | - |
| Deferred revenue | 1,137 | 4,556 | 136 | 50 |
| Amounts held in custody for others | 20 | - | - | - |
| Securities lending liability | - | 444 | 46 | - |
| Estimated insurance claims | - | 238 | - | - |
| Compensated absences payable | 160 | 21 | 108 | 121 |
| Total current liabilities | 19,904 | 5,352 | 6,460 | 374 |
| Noncurrent liabilities: | | | | |
| Lottery prizes payable | - | - | 1,223 | - |
| Estimated insurance claims | - | - | - | - |
| Compensated absences payable | 195 | 12 | 119 | 211 |
| OPEB implicit rate subsidy | 370 | 39 | 300 | 323 |
| Total noncurrent liabilities | 565 | 51 | 1,642 | 534 |
| Total liabilities | 20,469 | 5,403 | 8,102 | 908 |
| **NET ASSETS** | | | | |
| Invested in capital assets, net of related debt | 751 | 61 | 1,050 | 7,914 |
| Restricted for: | | | | |
| Other purposes | - | 12,503 | - | - |
| Unrestricted | (284) | - | 471 | 3,448 |
| Total net assets | $ 467 | $ 12,564 | $ 1,521 | $ 11,362 |

| MUS GROUP INSURANCE | MUS WORKERS COMPENSATION | SUBSEQUENT INJURY | SECRETARY OF STATE BUSINESS SERVICES | HISTORICAL SOCIETY PUBLICATIONS | SURPLUS PROPERTY |
|---|---|---|---|---|---|
| $ 5,326 | $ 65 | $ 1 | $ 119 | $ 50 | $ 13 |
| - | - | - | - | - | - |
| - | - | - | - | - | 45 |
| - | - | - | - | - | - |
| - | - | - | 104 | - | 604 |
| - | - | - | 196 | 131 | - |
| - | - | - | - | - | - |
| 1,305 | 563 | 20 | 109 | - | - |
| 6,600 | 1,854 | 600 | - | - | - |
| 47 | 4 | - | 159 | 12 | 21 |
| 13,278 | 2,486 | 621 | 687 | 193 | 683 |
| - | - | - | - | - | - |
| - | 6,947 | 2,612 | - | - | - |
| - | 4 | - | 122 | 10 | 23 |
| 49 | 8 | - | 536 | 72 | 42 |
| 49 | 6,959 | 2,612 | 658 | 82 | 65 |
| 13,327 | 9,445 | 3,233 | 1,345 | 275 | 748 |
| - | - | - | 1,670 | 1 | 73 |
| 23,126 | 7,093 | (2,452) | - | - | - |
| 56 | - | - | 1,771 | 317 | 397 |
| $ 23,182 | $ 7,093 | $ (2,452) | $ 3,441 | $ 318 | $ 470 |

*(Continued on Next Page)*

**COMBINING STATEMENT OF NET ASSETS**
**NONMAJOR ENTERPRISE FUNDS**
JUNE 30, 2010
*(amounts expressed in thousands)*

| | WEST YELLOWSTONE AIRPORT | LOCAL GOVERNMENT AUDITS | FLEXIBLE SPENDING ADMINISTRATION |
|---|---|---|---|
| **LIABILITIES** | | | |
| Current liabilities: | | | |
| Accounts payable | $ 121 | $ 7 | $ 194 |
| Lottery prizes payable | - | - | - |
| Interfund loans payable | - | - | - |
| Due to other governments | - | - | - |
| Due to other funds | - | - | - |
| Deferred revenue | 19 | - | - |
| Amounts held in custody for others | - | - | - |
| Securities lending liability | - | - | 23 |
| Estimated insurance claims | - | - | - |
| Compensated absences payable | 13 | 14 | - |
| Total current liabilities | 153 | 21 | 217 |
| Noncurrent liabilities: | | | |
| Lottery prizes payable | - | - | - |
| Estimated insurance claims | - | - | - |
| Compensated absences payable | 18 | 3 | - |
| OPEB implicit rate subsidy | 19 | 34 | - |
| Total noncurrent liabilities | 37 | 37 | - |
| Total liabilities | 190 | 58 | 217 |
| **NET ASSETS** | | | |
| Invested in capital assets, net of related debt | 2,909 | - | - |
| Restricted for: | | | |
| Other purposes | - | - | - |
| Unrestricted | 119 | 348 | 1,636 |
| Total net assets | $ 3,028 | $ 348 | $ 1,636 |

| HUD SECTION 8 HOUSING | OTHER ENTERPRISE FUNDS | TOTAL |
|---|---|---|
| $ 45 | $ 112 | $ 13,037 |
| - | - | 2,570 |
| - | - | 45 |
| 45 | - | 45 |
| - | - | 16,207 |
| - | 339 | 6,564 |
| - | - | 20 |
| 261 | 6 | 2,777 |
| - | - | 9,292 |
| 54 | 23 | 757 |
| 405 | 480 | 51,314 |
| | | |
| - | - | 1,223 |
| - | - | 9,559 |
| 54 | 40 | 811 |
| 172 | 79 | 2,043 |
| 226 | 119 | 13,636 |
| 631 | 599 | 64,950 |
| | | |
| 12 | 92 | 14,533 |
| | | |
| 6 | 319 | 40,595 |
| 7,918 | 600 | 16,797 |
| $ 7,936 | $ 1,011 | $ 71,925 |

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**
**NONMAJOR ENTERPRISE FUNDS**
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
*(amounts expressed in thousands)*

| | LIQUOR WAREHOUSE | HAIL INSURANCE | STATE LOTTERY | PRISON INDUSTRIES |
|---|---|---|---|---|
| **Operating revenues:** | | | | |
| Charges for services | $ 67,871 | $ - | $ 46,865 | $ 6,304 |
| Investment earnings | - | 32 | 16 | - |
| Securities lending income | - | 5 | 1 | - |
| Contributions/premiums | - | 6,886 | - | - |
| Grants/contracts/donations | - | - | - | - |
| Other operating revenues | 173 | 30 | 9 | - |
| Total operating revenues | 68,044 | 6,953 | 46,891 | 6,304 |
| **Operating expenses:** | | | | |
| Personal services | 2,732 | 398 | 1,819 | 2,630 |
| Contractual services | 259 | 151 | 5,728 | 165 |
| Supplies/materials | 58,016 | 3 | 1,355 | 2,140 |
| Benefits/claims | 108 | 3,710 | 84 | 98 |
| Depreciation | 101 | - | 162 | 262 |
| Amortization | - | 21 | - | - |
| Utilities/rent | 162 | 12 | 139 | 154 |
| Communications | 71 | 7 | 827 | 44 |
| Travel | 23 | 34 | 56 | 12 |
| Repair/maintenance | 45 | 1 | 20 | 436 |
| Lottery prize payments | - | - | 25,941 | - |
| Securities lending expense | - | 2 | - | - |
| Dividend expense | - | 1,867 | - | - |
| Other operating expenses | 55 | 32 | 231 | 443 |
| Total operating expenses | 61,572 | 6,238 | 36,362 | 6,384 |
| Operating income (loss) | 6,472 | 715 | 10,529 | (80) |
| **Nonoperating revenues (expenses):** | | | | |
| Tax revenues | 25,017 | - | - | - |
| Gain (loss) on sale of capital assets | 4 | - | (2) | (78) |
| Total nonoperating revenues (expenses) | 25,021 | - | (2) | (78) |
| Income (loss) before contributions and transfers | 31,493 | 715 | 10,527 | (158) |
| Capital contributions | - | - | 1,625 | - |
| Transfers in | - | - | - | - |
| Transfers out | (32,020) | (98) | (10,631) | - |
| Change in net assets | (527) | 617 | 1,521 | (158) |
| Total net assets - July 1 - as previously reported | 994 | 11,947 | - | 11,520 |
| Prior period adjustments | - | - | - | - |
| Total net assets - July 1 - as restated | 994 | 11,947 | - | 11,520 |
| Total net assets - June 30 | $ 467 | $ 12,564 | $ 1,521 | $ 11,362 |

| MUS GROUP INSURANCE | MUS WORKERS COMPENSATION | SUBSEQUENT INJURY | SECRETARY OF STATE BUSINESS SERVICES | HISTORICAL SOCIETY PUBLICATION | SURPLUS PROPERTY |
|---|---|---|---|---|---|
| $ - | $ - | $ - | $ 4,642 | $ 732 | $ 662 |
| 106 | 41 | 25 | 8 | - | - |
| 16 | 6 | - | 1 | - | - |
| 64,756 | 4,979 | 644 | - | - | - |
| 943 | - | - | - | 10 | - |
| 784 | - | 1 | 72 | 33 | - |
| 66,605 | 5,026 | 670 | 4,723 | 775 | 662 |
| (11) | 84 | - | 3,019 | 270 | 247 |
| 4,349 | 567 | - | 716 | 65 | 16 |
| 38 | - | - | 113 | 324 | 267 |
| 67,116 | 3,191 | 444 | 143 | 18 | 12 |
| - | - | - | 42 | - | 9 |
| - | - | - | 10 | - | - |
| 19 | 8 | - | 232 | 29 | 22 |
| 14 | 3 | - | 283 | 37 | 10 |
| 15 | 2 | - | 26 | 7 | 1 |
| 30 | - | - | 22 | 6 | 11 |
| - | - | - | - | - | - |
| 5 | - | - | - | - | - |
| - | - | - | - | - | - |
| 1,031 | 45 | - | 173 | 59 | 7 |
| 72,606 | 3,900 | 444 | 4,779 | 815 | 602 |
| (6,001) | 1,126 | 226 | (56) | (40) | 60 |
| - | - | - | - | - | - |
| - | - | - | - | - | (4) |
| - | - | - | - | - | (4) |
| (6,001) | 1,126 | 226 | (56) | (40) | 56 |
| - | - | - | 1,018 | - | 408 |
| - | - | - | - | 50 | - |
| - | - | (58) | - | - | - |
| (6,001) | 1,126 | 168 | 962 | 10 | 464 |
| 29,183 | 5,967 | (2,620) | 2,479 | 308 | 6 |
| - | - | - | - | - | - |
| 29,183 | 5,967 | (2,620) | 2,479 | 308 | 6 |
| $ 23,182 | $ 7,093 | $ (2,452) | $ 3,441 | $ 318 | $ 470 |

*(Continued on Next Page)*

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**
**NONMAJOR ENTERPRISE FUNDS**
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
*(amounts expressed in thousands)*

| | WEST YELLOWSTONE AIRPORT | LOCAL GOVERNMENT AUDITS | FLEXIBLE SPENDING ADMINISTRATION |
|---|---|---|---|
| **Operating revenues:** | | | |
| Charges for services | $ 52 | $ 357 | $ 67 |
| Investment earnings | - | - | 2 |
| Securities lending income | - | - | - |
| Contributions/premiums | - | - | 13,809 |
| Grants/contracts/donations | - | - | - |
| Other operating revenues | 106 | - | - |
| Total operating revenues | 158 | 357 | 13,878 |
| **Operating expenses:** | | | |
| Personal services | 136 | 220 | - |
| Contractual services | 18 | 20 | 272 |
| Supplies/materials | 4 | 7 | - |
| Benefits/claims | 5 | 11 | 13,565 |
| Depreciation | 156 | - | - |
| Amortization | - | - | - |
| Utilities/rent | 31 | 29 | - |
| Communications | 4 | 8 | - |
| Travel | 2 | 1 | - |
| Repair/maintenance | 16 | - | - |
| Lottery prize payments | - | - | - |
| Securities lending expense | - | - | - |
| Dividend expense | - | - | - |
| Other operating expenses | 1 | 19 | 165 |
| Total operating expenses | 373 | 315 | 14,002 |
| Operating income (loss) | (215) | 42 | (124) |
| **Nonoperating revenues (expenses):** | | | |
| Tax revenues | - | - | - |
| Gain (loss) on sale of capital assets | - | - | - |
| Total nonoperating revenues (expenses) | - | - | - |
| Income (loss) before contributions and transfers | (215) | 42 | (124) |
| Capital contributions | 119 | - | - |
| Transfers in | - | - | - |
| Transfers out | - | - | - |
| Change in net assets | (96) | 42 | (124) |
| Total net assets - July 1 - as previously reported | 3,124 | 306 | 1,760 |
| Prior period adjustments | - | - | - |
| Total net assets - July 1 - as restated | 3,124 | 306 | 1,760 |
| Total net assets - June 30 | $ 3,028 | $ 348 | $ 1,636 |

| HUD SECTION 8 HOUSING | OTHER ENTERPRISE FUNDS | TOTAL |
|---|---|---|
| $ - | $ 1,528 | $ 129,080 |
| 44 | - | 274 |
| 3 | - | 32 |
| - | - | 91,074 |
| 39,650 | - | 40,603 |
| 1 | 209 | 1,418 |
| 39,698 | 1,737 | 262,481 |
| 1,018 | 557 | 13,119 |
| 1,470 | 885 | 14,681 |
| 42 | 279 | 62,588 |
| 36,377 | 24 | 124,906 |
| - | 11 | 743 |
| 5 | 1 | 37 |
| 99 | 27 | 963 |
| 56 | 9 | 1,373 |
| 34 | 33 | 246 |
| 71 | 243 | 901 |
| - | - | 25,941 |
| 1 | - | 8 |
| - | - | 1,867 |
| 174 | 46 | 2,481 |
| 39,347 | 2,115 | 249,854 |
| 351 | (378) | 12,627 |
| - | - | 25,017 |
| - | - | (80) |
| - | - | 24,937 |
| 351 | (378) | 37,564 |
| - | 4 | 3,174 |
| - | - | 50 |
| - | (13) | (42,820) |
| 351 | (387) | (2,032) |
| 7,585 | 1,160 | 73,719 |
| - | 238 | 238 |
| 7,585 | 1,398 | 73,957 |
| $ 7,936 | $ 1,011 | $ 71,925 |

**COMBINING STATEMENT OF CASH FLOWS**
**NONMAJOR ENTERPRISE FUNDS**
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
*(amounts expressed in thousands)*

| | LIQUOR WAREHOUSE | HAIL INSURANCE | STATE LOTTERY | PRISON INDUSTRIES |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| **Receipts from sales and services** | $ 67,435 | $ 6,862 | $ 46,314 | $ 6,358 |
| **Payments to suppliers for goods and services** | (58,669) | (278) | (7,756) | (3,518) |
| Payments to employees | (2,797) | (456) | (1,803) | (2,741) |
| Grant receipts | - | - | - | - |
| Cash payments for claims | - | (3,813) | - | - |
| Cash payments for prizes | - | - | (24,828) | - |
| Other operating revenues | 173 | 29 | - | - |
| Other operating payments | - | (1,867) | - | - |
| Net cash provided by (used for) operating activities | 6,142 | 477 | 11,927 | 99 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | | |
| Collection of taxes | 25,017 | - | - | - |
| Transfers to other funds | (34,299) | (92) | (10,631) | - |
| Transfers from other funds | - | - | - | - |
| Proceeds from interfund loans/advances | - | - | - | - |
| Payments of interfund loans/advances | - | - | - | - |
| Net cash provided by (used for) noncapital financing activities | (9,282) | (92) | (10,631) | - |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | |
| Acquisition of capital assets | (50) | - | (565) | (115) |
| Proceeds from sale of capital assets | 4 | - | 1 | (78) |
| Net cash used for capital and related financing activities | (46) | - | (564) | (193) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Purchase of investments | - | - | 68 | - |
| Proceeds from sales or maturities of investments | - | 286 | 333 | - |
| Proceeds from securities lending transactions | - | 5 | - | - |
| Interest and dividends on investments | - | 36 | 17 | - |
| Payment of securities lending costs | - | (2) | - | - |
| Net cash provided by (used for) investing activities | - | 325 | 418 | - |
| Net increase (decrease) in cash and cash equivalents | (3,186) | 710 | 1,150 | (94) |
| Cash and cash equivalents, July 1 | 5,932 | 11,467 | 1,846 | 2,085 |
| Cash and cash equivalents, June 30 | $ 2,746 | $ 12,177 | $ 2,996 | $ 1,991 |

| | MUS GROUP INSURANCE | MUS WORKERS COMPENSATION | SUBSEQUENT INJURY | SECRETARY OF STATE BUSINESS SERVICES | HISTORICAL SOCIETY PUBLICATIONS | SURPLUS PROPERY |
|---|---|---|---|---|---|---|
| | $ 68,902 | $ 5,361 | $ 708 | $ 4,665 | $ 740 | $ 473 |
| | (5,598) | - | - | (1,878) | (511) | (528) |
| | (365) | (83) | - | (3,079) | (292) | (248) |
| | - | - | (301) | - | - | - |
| | (65,663) | (2,123) | - | - | - | - |
| | - | - | - | - | - | - |
| | 784 | - | 1 | 72 | 43 | - |
| | - | (728) | - | - | - | - |
| | (1,940) | 2,427 | 408 | (220) | (20) | (303) |
| | - | - | (58) | - | - | - |
| | - | - | - | - | - | - |
| | - | - | - | - | 50 | 408 |
| | - | - | - | (3) | - | - |
| | - | - | - | - | - | (105) |
| | - | - | (58) | (3) | 50 | 303 |
| | - | - | - | (23) | - | - |
| | - | - | - | - | - | - |
| | - | - | - | (23) | - | - |
| | - | 154 | - | - | - | - |
| | 931 | - | 60 | 78 | - | - |
| | 16 | 6 | - | 1 | - | - |
| | 119 | - | 27 | - | - | - |
| | (5) | 44 | - | 9 | - | - |
| | 1,061 | 204 | 87 | 88 | - | - |
| | (879) | 2,631 | 437 | (158) | 30 | - |
| | 33,335 | 12,234 | 146 | 2,933 | 92 | 17 |
| | $ 32,456 | $ 14,865 | $ 583 | $ 2,775 | $ 122 | $ 17 |

*(Continued on Next Page)*

**COMBINING STATEMENT OF CASH FLOWS - Continued**
**NONMAJOR ENTERPRISE FUNDS**
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
*(amounts expressed in thousands)*

| | WEST YELLOWSTONE AIRPORT | LOCAL GOVERNMENT AUDITS | FLEXIBLE SPENDING ADMINISTRATION |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from sales and services | $ 52 | $ 355 | $ 14,401 |
| Payments to suppliers for goods and services | (40) | (85) | - |
| Payments to employees | (138) | (225) | (300) |
| Grant receipts | - | - | - |
| Cash payments for claims | - | - | (13,677) |
| Cash payments for prizes | - | - | - |
| Other operating revenues | 126 | - | - |
| Other operating payments | - | - | - |
| Net cash provided by (used for) operating activities | - | 45 | 424 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | |
| Collection of taxes | - | - | - |
| Transfers to other funds | - | - | - |
| Transfers from other funds | - | - | - |
| Proceeds from interfund loans/advances | - | - | - |
| Payments of interfund loans/advances | - | - | - |
| Net cash provided by (used for) noncapital financing activities | - | - | - |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | |
| Acquisition of capital assets | (7) | - | - |
| Proceeds from sale of capital assets | - | - | - |
| Net cash used for capital and related financing activities | (7) | - | - |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of investments | - | - | - |
| Proceeds from sales or maturities of investments | - | - | 13 |
| Proceeds from securities lending transactions | - | - | - |
| Interest and dividends on investments | - | - | 2 |
| Payment of securities lending costs | - | - | - |
| Net cash provided by (used for) investing activities | - | - | 15 |
| Net increase (decrease) in cash and cash equivalents | (7) | 45 | 439 |
| Cash and cash equivalents, July 1 | 210 | 359 | 1,355 |
| Cash and cash equivalents, June 30 | $ 203 | $ 404 | $ 1,794 |

| HUD SECTION 8 HOUSING | OTHER ENTERPRISE FUNDS | TOTAL |
|---|---|---|
| $ - | $ 2,291 | $ 224,917 |
| (38,262) | (1,594) | (118,717) |
| (1,051) | (562) | (14,140) |
| 40,170 | - | 39,869 |
| - | - | (85,276) |
| - | - | (24,828) |
| 1 | 209 | 1,438 |
| - | - | (2,595) |
| 858 | 344 | 20,668 |
| - | - | 24,959 |
| 721 | (13) | (44,314) |
| (721) | 4 | (259) |
| (22) | - | (25) |
| - | - | (105) |
| (22) | (9) | (19,744) |
| - | (68) | (828) |
| - | - | (73) |
| - | (68) | (901) |
| 90 | 8 | 320 |
| - | - | 1,701 |
| - | - | 28 |
| (18) | 1 | 184 |
| (1) | (4) | 41 |
| 71 | 5 | 2,274 |
| 907 | 272 | 2,297 |
| 5,568 | 1,070 | 78,649 |
| $ 6,475 | $ 1,342 | $ 80,946 |

*(Continued on Next Page)*

**COMBINING STATEMENT OF CASH FLOWS - Continued**
**NONMAJOR ENTERPRISE FUNDS**
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
*(amounts expressed in thousands)*

| | LIQUOR WAREHOUSE | HAIL INSURANCE | STATE LOTTERY | PRISON INDUSTRIES |
|---|---|---|---|---|
| **Reconciliation of operating income to net cash provided by operating activities:** | | | | |
| Operating income (loss) | $ 6,472 | $ 715 | $ 10,529 | $ (80) |
| **Adjustments to reconcile operating income to net cash provided by (used for) operating activities:** | | | | |
| Depreciation | 101 | - | 162 | 262 |
| Amortization | - | 21 | - | - |
| Securities lending expense | - | 2 | - | - |
| Investment earnings | - | (36) | - | - |
| Securities lending income | - | (5) | - | - |
| Change in assets and liabilities: | | | | |
| Decr (incr) in accounts receivable | (393) | (1,294) | (2,066) | 25 |
| Decr (incr) in due from other funds | 3 | - | 1 | 206 |
| Decr (incr) in due from component units | 2 | - | - | (7) |
| Decr (incr) in due from other governments | - | - | - | - |
| Decr (incr) in inventories | (9) | - | 267 | (172) |
| Decr (incr) in other assets | (5) | (2) | 2,028 | - |
| Incr (decr) in accounts payable | (6) | (40) | (43) | (105) |
| Incr (decr) in lottery prizes payable | - | - | 1,113 | - |
| Incr (decr) in due to other funds | (130) | - | 35 | (138) |
| Incr (decr) in due to component units | - | - | - | - |
| Incr (decr) in due to other governments | - | - | - | - |
| Incr (decr) in deferred revenue | (40) | 1,224 | (115) | 8 |
| Incr (decr) in compensated absences payable | 39 | (5) | 16 | 2 |
| Incr (decr) in OPEB implicit rate subsidy | 108 | 13 | - | 98 |
| Incr (decr) in estimated claims | - | (116) | - | - |
| Net cash provided by (used for) operating activities | $ 6,142 | $ 477 | $ 11,927 | $ 99 |
| **Schedule of noncash transactions:** | | | | |
| Capital asset acquisitions from contributed capital | $ - | $ - | $ - | $ - |
| Capital contributions from other funds | $ - | $ - | $ 1,625 | $ - |
| Total noncash transactions | $ - | $ - | $ 1,625 | $ - |

| MUS GROUP INSURANCE | MUS WORKERS COMPENSATION | SUBSEQUENT INJURY | SECRETARY OF STATE BUSINESS SERVICES | HISTORICAL SOCIETY PUBLICATIONS | SURPLUS PROPERY |
|---|---|---|---|---|---|
| $ (6,001) | $ 1,126 | $ 226 | $ (56) | $ (40) | $ 60 |
| - | - | - | 42 | - | 9 |
| - | - | - | 10 | - | - |
| 5 | - | - | - | - | - |
| (119) | (47) | (26) | (9) | - | - |
| (16) | - | - | (1) | - | - |
| 829 | - | 18 | (6) | (1) | (783) |
| - | - | - | 2 | - | 4 |
| 2,374 | 382 | 47 | 1 | - | 4 |
| - | - | - | - | - | - |
| (322) | - | - | 1 | 6 | (201) |
| - | 18 | - | (390) | (1) | - |
| 1,199 | 6 | - | (96) | 7 | (4) |
| - | - | - | - | - | - |
| (3) | (130) | - | 72 | (1) | 591 |
| (6) | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | 34 | 8 | - |
| - | 1 | - | 33 | (16) | 5 |
| 20 | 3 | - | 143 | 18 | 12 |
| 100 | 1,068 | 143 | - | - | - |
| $ (1,940) | $ 2,427 | $ 408 | $ (220) | $ (20) | $ (303) |
| $ - | $ - | $ - | $ 1,018 | $ - | $ - |
| $ - | $ - | $ - | $ - | $ - | $ 408 |
| $ - | $ - | $ - | $ 1,018 | $ - | $ 408 |

*(Continued on Next Page)*

**COMBINING STATEMENT OF CASH FLOWS - Continued**
**NONMAJOR ENTERPRISE FUNDS**
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
*(amounts expressed in thousands)*

| | WEST YELLOWSTONE AIRPORT | LOCAL GOVERNMENT AUDITS | FLEXIBLE SPENDING ADMINISTRATION |
|---|---|---|---|
| **Reconciliation of operating income to net cash provided by operating activities:** | | | |
| Operating income (loss) | $ (215) | $ 42 | $ (124) |
| **Adjustments to reconcile operating income to net cash provided by (used for) operating activities:** | | | |
| Depreciation | 156 | - | - |
| Amortization | - | - | - |
| Securities lending expense | - | - | - |
| Investment earnings | - | - | (2) |
| Securities lending income | - | - | - |
| Change in assets and liabilities: | | | |
| Decr (incr) in accounts receivable | (32) | (1) | 344 |
| Decr (incr) in due from other funds | - | - | - |
| Decr (incr) in due from component units | - | - | 181 |
| Decr (incr) in due from other governments | - | - | - |
| Decr (incr) in inventories | - | - | - |
| Decr (incr) in other assets | - | - | - |
| Incr (decr) in accounts payable | 62 | (6) | 25 |
| Incr (decr) in lottery prizes payable | - | - | - |
| Incr (decr) in due to other funds | - | (1) | - |
| Incr (decr) in due to component units | - | - | - |
| Incr (decr) in due to other governments | - | - | - |
| Incr (decr) in deferred revenue | 20 | - | - |
| Incr (decr) in compensated absences payable | 4 | - | - |
| Incr (decr) in OPEB implicit rate subsidy | 5 | 11 | - |
| Incr (decr) in estimated claims | - | - | - |
| Net cash provided by (used for) operating activities | $ - | $ 45 | $ 424 |
| **Schedule of noncash transactions:** | | | |
| Capital asset acquisitions from contributed capital | $ 119 | $ - | $ - |
| Capital contributions from other funds | $ - | $ - | $ - |
| Total noncash transactions | $ 119 | $ - | $ - |

| HUD SECTION 8 HOUSING | OTHER ENTERPRISE FUNDS | TOTAL |
|---|---|---|
| $ 351 | $ (378) | $ 12,627 |
| - | 11 | 743 |
| 5 | 1 | 37 |
| 1 | - | 8 |
| 21 | (1) | (219) |
| (3) | - | (25) |
| (57) | (26) | (3,443) |
| - | 356 | 572 |
| - | - | 2,984 |
| (289) | 5 | (284) |
| - | (4) | (434) |
| 865 | - | 2,513 |
| (63) | (44) | 892 |
| - | - | 1,113 |
| (13) | (35) | 247 |
| - | - | (6) |
| (8) | - | (8) |
| - | 427 | 1,566 |
| (5) | 8 | 82 |
| 53 | 24 | 508 |
| - | - | 1,195 |
| $ 858 | $ 344 | $ 20,668 |
| $ - | $ - | $ 1,137 |
| $ - | $ 4 | $ 2,037 |
| $ - | $ 4 | $ 3,174 |

# INTERNAL SERVICE FUNDS

Internal service funds are used to account for operations that provide goods or services to other agencies or programs of state government on a cost-reimbursement basis. A brief description of each internal service fund follows:

**FWP Equipment** – This fund is used to account for interdepartmental and intradepartmental sales and use of FWP equipment.

**Highway Equipment** – This fund is used to account for interdepartmental and intradepartmental sales and use of Department of Transportation equipment.

**Employee Group Benefits** – This fund receives employee (excluding higher education units) withholdings and state contributions to the medical self-insurance plan. The State contracted with Blue Cross and Blue Shield of Montana to oversee the administrative functions of the program.

**Information Technology Services** – State agencies and private users are assessed a fee for their use of the State's phone system, centralized data processing, and systems design services provided by the Department of Administration.

**Administration Insurance** – In this fund, the Department of Administration accounts for the State's property self-insurance program (including liability, property, flood, etc.).

**Administration Supply** – This fund is used by the Department of Administration to account for intragovernmental sales of office supplies and paper products to state agencies.

**Motor Pool** – State employee transportation is provided by the Department of Transportation through a pool of vehicles. The cost of operating the Motor Pool is recovered through rental rates charged to user agencies based on the average operating costs per mile for each class of vehicle.

**Print & Mail Services** – Agencies are assessed a fee for duplicating, typesetting, forms design, and graphic arts services.

**Buildings & Grounds** – Rental proceeds from state agencies are used to pay maintenance, security, and landscaping costs for state-owned property.

**Central Service Funds –** This fund group consists of four funds, used by the Department of Administration, the Department of Labor and Industry, the Department of Commerce, and the Office of Public Instruction, for administrative services provided on a cost recovery basis to programs within the departments.

**DEQ Indirect Cost Pool** – This fund is used to account for funds collected as indirect costs from the operating units of the Department of Environmental Quality and to fund the department's indirect cost pool operations that provide services to the department.

**Payroll Processing** – This fund accounts for the payments received from state agencies for the costs associated with the processing of payroll warrants. This fund also implements and maintains the State's central human resource reporting system.

**Warrant Processing** – This fund accounts for the payments received from state agencies for the costs associated with the processing of all warrants other than payroll.

**Investment Division** – This fund accounts for costs associated with operations of the Board of Investments (BOI). BOI assists agencies in the investment of state funds. Costs of administering and accounting for each investment fund are allocated based on the dollar volume of investments held by user agencies.

**Aircraft Operation** – This fund is used by the Department of Natural Resources and Conservation to account for fees charged to users of state aircraft.

**Justice Legal Services** – The Attorney General's Office and the Department of Justice charge other state agencies a fee for legal assistance. The Department of Administration funds legal services with intradepartmental fees.

**Personnel Training** – This fund accounts for fees charged to state agencies for training state employees. The fees are used by the Department of Administration to pay instructors and purchase training materials.

**Debt Collection** – The debt collection component of this fund accounts for fees charged for the collection of bad debts.

**Prison Industries** – These operations provide training and employment for inmates, where the products produced are primarily sold to other state agencies.

**SABHRS Finance and Budget Bureau** – This fund implements and maintains the State's central accounting and budget software reporting system that is used by state agencies.

**Other Internal Services** – This category includes several small internal service funds administered by various agencies.

**COMBINING STATEMENT OF NET ASSETS**
**INTERNAL SERVICE FUNDS**
JUNE 30, 2010
*(amounts expressed in thousands)*

| | FWP EQUIPMENT | HIGHWAY EQUIPMENT | EMPLOYEE GROUP BENEFITS | INFO TECH SERVICES | ADMIN INSURANCE |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash/cash equivalents | $ 684 | $ 3,494 | $ 24,777 | $ 9,409 | $ 24,338 |
| Receivables (net) | 12 | 7 | 2,659 | 57 | 7 |
| Interfund loans receivable | - | - | - | - | - |
| Due from other governments | - | - | - | - | - |
| Due from other funds | 54 | 149 | - | 83 | - |
| Inventories | - | 1,669 | - | - | - |
| Securities lending collateral | - | - | 4,374 | - | 827 |
| Other current assets | - | - | 26 | 450 | - |
| Total current assets | 750 | 5,319 | 31,836 | 9,999 | 25,172 |
| Noncurrent assets: | | | | | |
| Long-term investments | - | - | 33,540 | - | 1,295 |
| Capital assets: | | | | | |
| Land | - | - | - | - | - |
| Land improvements | - | - | - | - | - |
| Buildings/improvements | - | - | - | 793 | - |
| Equipment | 11,384 | 138,237 | - | 45,558 | - |
| Construction in progress | - | 4,496 | - | 1,115 | - |
| Intangible assets | 6 | - | 18 | - | 204 |
| Less accumulated depreciation | (4,876) | (75,904) | - | (42,499) | - |
| Total capital assets | 6,514 | 66,829 | 18 | 4,967 | 204 |
| Total noncurrent assets | 6,514 | 66,829 | 33,558 | 4,967 | 1,499 |
| Total assets | 7,264 | 72,148 | 65,394 | 14,966 | 26,671 |
| **LIABILITIES** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | 160 | 1,257 | 3,871 | 7,197 | 308 |
| Interfund loans payable | - | - | - | - | - |
| Due to other funds | - | - | - | 13 | - |
| Deferred revenue | - | - | 1,162 | 88 | - |
| Lease/installment purchase payable | - | - | - | 272 | - |
| Securities lending liability | - | - | 4,374 | - | 827 |
| Estimated insurance claims | - | - | 11,319 | - | 5,501 |
| Compensated absences payable | 5 | 414 | 36 | 967 | 47 |
| Total current liabilities | 165 | 1,671 | 20,762 | 8,537 | 6,683 |
| Noncurrent liabilities: | | | | | |
| Advances from other funds | 300 | - | - | - | - |
| Lease/installment purchase payable | - | - | - | 188 | - |
| Estimated insurance claims | - | - | 1,691 | - | 11,173 |
| Compensated absences payable | 10 | 375 | 26 | 872 | 129 |
| OPEB implicit rate subsidy | 28 | 1,128 | 119 | 1,659 | 137 |
| Total noncurrent liabilities | 338 | 1,503 | 1,836 | 2,719 | 11,439 |
| Total liabilities | 503 | 3,174 | 22,598 | 11,256 | 18,122 |
| **NET ASSETS** | | | | | |
| Invested in capital assets, net of related debt | 6,514 | 66,829 | 18 | 4,967 | 204 |
| Unrestricted | 247 | 2,145 | 42,778 | (1,257) | 8,345 |
| Total net assets | $ 6,761 | $ 68,974 | $ 42,796 | $ 3,710 | $ 8,549 |

| ADMIN SUPPLY | MOTOR POOL | PRINT & MAIL SERVICES | BUILDINGS & GROUNDS | ADMIN CENTRAL SERVICES | LABOR CENTRAL SERVICES | COMMERCE CENTRAL SERVICES | OPI CENTRAL SERVICES |
|---|---|---|---|---|---|---|---|
| $ 1,012 | $ 1,308 | $ 1,381 | $ 4,968 | $ 304 | $ 1,484 | $ 610 | $ 366 |
| 1 | - | 74 | 3 | - | - | - | - |
| 45 | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| 9 | 399 | - | - | - | - | - | - |
| 303 | 16 | 138 | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| 9 | 1 | 427 | - | - | 3 | - | - |
| 1,379 | 1,724 | 2,020 | 4,971 | 304 | 1,487 | 610 | 366 |
| - | - | - | - | - | - | - | - |
| - | 236 | - | - | - | - | - | - |
| - | - | - | 95 | - | - | - | - |
| - | - | - | 1,091 | - | - | - | - |
| 114 | 18,166 | 2,998 | 511 | - | 260 | 83 | - |
| - | - | - | 141 | - | - | - | - |
| - | - | - | - | - | 24 | - | - |
| (103) | (8,306) | (1,330) | (445) | - | (140) | (38) | - |
| 11 | 10,096 | 1,668 | 1,393 | - | 144 | 45 | - |
| 11 | 10,096 | 1,668 | 1,393 | - | 144 | 45 | - |
| 1,390 | 11,820 | 3,688 | 6,364 | 304 | 1,631 | 655 | 366 |
| 403 | 150 | 486 | 375 | 48 | 189 | 47 | 61 |
| - | 1,320 | - | - | - | 2 | - | - |
| - | 1,940 | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | 229 | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| 20 | 15 | 68 | 91 | 42 | 265 | 84 | 119 |
| 423 | 3,425 | 783 | 466 | 90 | 456 | 131 | 180 |
| - | 5,038 | - | - | - | - | - | - |
| - | - | 701 | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| 59 | 25 | 78 | 101 | 133 | 178 | 149 | 69 |
| 77 | 55 | 311 | 264 | 120 | 521 | 164 | 228 |
| 136 | 5,118 | 1,090 | 365 | 253 | 699 | 313 | 297 |
| 559 | 8,543 | 1,873 | 831 | 343 | 1,155 | 444 | 477 |
| 11 | 10,096 | 1,668 | 1,393 | - | 144 | 45 | - |
| 820 | (6,819) | 147 | 4,140 | (39) | 332 | 166 | (111) |
| $ 831 | $ 3,277 | $ 1,815 | $ 5,533 | $ (39) | $ 476 | $ 211 | $ (111) |

*(Continued on Next Page)*

**COMBINING STATEMENT OF NET ASSETS**
**INTERNAL SERVICE FUNDS**
JUNE 30, 2010
*(amounts expressed in thousands)*

| | DEQ INDIRECT COST POOL | PAYROLL PROCESSING | WARRANT PROCESSING | INVESTMENT DIVISION | AIRCRAFT OPERATION |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash/cash equivalents | $ 749 | $ 791 | $ 244 | $ 977 | $ 350 |
| Receivables (net) | 4 | - | - | - | - |
| Interfund loans receivable | - | - | - | - | - |
| Due from other governments | - | - | - | - | - |
| Due from other funds | 610 | - | - | 36 | 50 |
| Inventories | - | 6 | 38 | - | - |
| Securities lending collateral | - | - | - | - | - |
| Other current assets | 10 | 3 | - | 74 | - |
| Total current assets | 1,373 | 800 | 282 | 1,087 | 400 |
| Noncurrent assets: | | | | | |
| Long-term investments | - | - | - | - | - |
| Capital assets: | | | | | |
| Land | - | - | - | - | - |
| Land improvements | - | - | - | - | - |
| Buildings/improvements | - | - | - | - | - |
| Equipment | 564 | - | 149 | 11 | 62 |
| Construction in progress | - | 83 | - | - | - |
| Intangible assets | - | 120 | - | 6 | - |
| Less accumulated depreciation | (448) | - | (100) | (8) | (35) |
| Total capital assets | 116 | 203 | 49 | 9 | 27 |
| Total noncurrent assets | 116 | 203 | 49 | 9 | 27 |
| Total assets | 1,489 | 1,003 | 331 | 1,096 | 427 |
| **LIABILITIES** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | 263 | 143 | 10 | 181 | 103 |
| Interfund loans payable | - | - | - | - | - |
| Due to other funds | 47 | - | - | - | - |
| Deferred revenue | - | - | - | - | - |
| Lease/installment purchase payable | - | - | 18 | - | - |
| Securities lending liability | - | - | - | - | - |
| Estimated insurance claims | - | - | - | - | - |
| Compensated absences payable | 264 | 113 | 11 | 143 | 54 |
| Total current liabilities | 574 | 256 | 39 | 324 | 157 |
| Noncurrent liabilities: | | | | | |
| Advances from other funds | - | - | - | - | - |
| Lease/installment purchase payable | - | - | 23 | - | - |
| Estimated insurance claims | - | - | - | - | - |
| Compensated absences payable | 225 | 48 | 5 | 255 | 72 |
| OPEB implicit rate subsidy | 504 | 241 | 55 | 243 | 109 |
| Total noncurrent liabilities | 729 | 289 | 83 | 498 | 181 |
| Total liabilities | 1,303 | 545 | 122 | 822 | 338 |
| **NET ASSETS** | | | | | |
| Invested in capital assets, net of related debt | 116 | 203 | 49 | 9 | 27 |
| Unrestricted | 70 | 255 | 160 | 265 | 62 |
| Total net assets | $ 186 | $ 458 | $ 209 | $ 274 | $ 89 |

| JUSTICE LEGAL SERVICES | PERSONNEL TRAINING | DEBT COLLECTION | PRISON INDUSTRIES | OTHER INTERNAL SERVICES | SABHRS FINANCE & BUDGET BUREAU | TOTAL |
|---|---|---|---|---|---|---|
| $ 189 | $ - | $ 146 | $ 1,811 | $ 356 | $ 873 | $ 80,621 |
| - | 1 | - | 52 | - | - | 2,877 |
| - | - | - | - | - | - | 45 |
| - | 7 | - | - | - | - | 7 |
| 7 | - | - | - | - | - | 1,397 |
| - | - | - | 142 | 174 | - | 2,486 |
| - | - | - | - | - | - | 5,201 |
| - | - | - | - | - | - | 1,003 |
| 196 | 8 | 146 | 2,005 | 530 | 873 | 93,637 |
| - | - | - | - | - | - | 34,835 |
| - | - | - | - | - | - | 236 |
| - | - | - | - | - | - | 95 |
| - | - | - | 2,820 | - | - | 4,704 |
| - | - | - | 1,390 | 71 | 66 | 219,624 |
| - | - | - | - | - | - | 5,835 |
| - | - | - | - | - | 387 | 765 |
| - | - | - | (1,794) | (63) | (59) | (136,148) |
| - | - | - | 2,416 | 8 | 394 | 95,111 |
| - | - | - | 2,416 | 8 | 394 | 129,946 |
| 196 | 8 | 146 | 4,421 | 538 | 1,267 | 223,583 |
| 43 | 6 | 5 | 80 | 94 | 52 | 15,532 |
| - | - | - | - | 33 | - | 1,355 |
| - | - | - | - | - | - | 2,000 |
| - | - | - | 26 | - | - | 1,276 |
| - | - | - | - | - | - | 519 |
| - | - | - | - | - | - | 5,201 |
| - | - | - | - | - | - | 16,820 |
| 80 | 8 | 4 | 62 | 14 | 89 | 3,015 |
| 123 | 14 | 9 | 168 | 141 | 141 | 45,718 |
| - | - | - | - | - | - | 5,338 |
| - | - | - | - | - | - | 912 |
| - | - | - | - | - | - | 12,864 |
| 129 | 3 | - | 23 | 16 | 122 | 3,102 |
| 135 | 29 | 27 | 228 | 25 | 155 | 6,562 |
| 264 | 32 | 27 | 251 | 41 | 277 | 28,778 |
| 387 | 46 | 36 | 419 | 182 | 418 | 74,496 |
| - | - | - | 2,416 | 8 | 394 | 95,111 |
| (191) | (38) | 110 | 1,586 | 348 | 455 | 53,976 |
| $ (191) | $ (38) | $ 110 | $ 4,002 | $ 356 | $ 849 | $ 149,087 |

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**
**INTERNAL SERVICE FUNDS**
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
*(amounts expressed in thousands)*

| | FWP EQUIPMENT | HIGHWAY EQUIPMENT | EMPLOYEE GROUP BENEFITS | INFO TECH SERVICES | ADMIN INSURANCE |
|---|---|---|---|---|---|
| **Operating revenues:** | | | | | |
| Charges for services | $ 3,422 | $ 23,848 | $ 296 | $ 41,430 | $ - |
| Investment earnings | - | - | 2,396 | - | 77 |
| Securities lending income | - | - | 40 | - | 12 |
| Securities lending expense | - | - | (18) | - | (4) |
| Contributions/premiums | - | - | 106,097 | - | 11,757 |
| Grants/contracts/donations | - | - | 2,235 | - | - |
| Other operating revenues | - | 184 | 1,413 | 22 | - |
| Total operating revenues | 3,422 | 24,032 | 112,459 | 41,452 | 11,842 |
| **Operating expenses:** | | | | | |
| Personal services | 127 | 7,144 | 913 | 14,928 | 998 |
| Contractual services | 122 | 419 | 5,589 | 2,186 | 5,273 |
| Supplies/materials | 1,157 | 6,485 | 83 | 1,228 | 39 |
| Benefits/claims | 9 | 325 | 102,827 | 510 | 5,058 |
| Depreciation | 549 | 5,960 | - | 2,255 | - |
| Amortization | 7 | - | 22 | - | 60 |
| Utilities/rent | 25 | 89 | 108 | 10,737 | 68 |
| Communications | 4 | 6 | 89 | 6,371 | 22 |
| Travel | 11 | 10 | 12 | 88 | 15 |
| Repair/maintenance | 626 | 4,014 | 2 | 1,736 | 14 |
| Interest expense | - | - | - | 27 | - |
| Other operating expenses | 4 | 300 | 920 | 1,108 | 215 |
| Total operating expenses | 2,641 | 24,752 | 110,565 | 41,174 | 11,762 |
| Operating income (loss) | 781 | (720) | 1,894 | 278 | 80 |
| **Nonoperating revenues (expenses):** | | | | | |
| Insurance proceeds | - | 1 | - | - | 235 |
| Gain (loss) on sale of capital assets | (235) | 38 | - | - | - |
| Federal indirect cost recoveries | - | - | - | - | - |
| Total nonoperating revenues (expenses) | (235) | 39 | - | - | 235 |
| Income (loss) before contributions and transfers | 546 | (681) | 1,894 | 278 | 315 |
| Capital contributions | - | 1,008 | - | 298 | - |
| Transfers in | 73 | - | - | - | 616 |
| Transfers out | - | - | - | - | (640) |
| Changes in net assets | 619 | 327 | 1,894 | 576 | 291 |
| Total net assets - July 1 - as previously reported | 6,142 | 68,646 | 39,391 | 2,226 | 8,232 |
| Prior period adjustments | - | 1 | 1,511 | 908 | 26 |
| Total net assets - July 1 - as restated | 6,142 | 68,647 | 40,902 | 3,134 | 8,258 |
| Total net assets - June 30 | $ 6,761 | $ 68,974 | $ 42,796 | $ 3,710 | $ 8,549 |

| ADMIN SUPPLY | MOTOR POOL | PRINT & MAIL SERVICES | BUILDINGS & GROUNDS | ADMIN CENTRAL SERVICES | LABOR CENTRAL SERVICES | COMMERCE CENTRAL SERVICES | OPI CENTRAL SERVICES |
|---|---|---|---|---|---|---|---|
| $ 4,855 | $ 6,805 | $ 12,177 | $ 10,680 | $ 1,244 | $ 5,137 | $ 25 | $ 1,209 |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | 4 | - | - | 1 | - | 1,331 | 8 |
| 4,855 | 6,809 | 12,177 | 10,680 | 1,245 | 5,137 | 1,356 | 1,217 |
| 389 | 319 | 1,351 | 1,618 | 992 | 4,161 | 1,287 | 1,709 |
| 42 | 434 | 111 | 3,140 | 42 | 801 | 26 | 261 |
| 4,223 | 1,499 | 4,919 | 210 | 33 | 266 | 47 | 47 |
| 22 | 15 | 87 | 80 | 39 | 179 | 50 | 71 |
| 1 | 2,349 | 319 | 177 | - | 35 | 13 | - |
| - | - | - | - | - | 12 | - | - |
| 103 | 75 | 237 | 2,507 | 34 | 226 | 97 | 264 |
| 27 | 1 | 4,585 | 32 | 21 | 97 | 26 | 187 |
| - | - | 2 | 1 | 2 | 42 | 23 | 6 |
| 6 | 284 | 533 | 1,445 | 10 | 24 | 2 | 20 |
| - | 198 | - | - | - | - | - | - |
| 26 | 134 | 60 | 207 | 15 | 679 | 27 | 51 |
| 4,839 | 5,308 | 12,204 | 9,417 | 1,188 | 6,522 | 1,598 | 2,616 |
| 16 | 1,501 | (27) | 1,263 | 57 | (1,385) | (242) | (1,399) |
| - | 2 | - | - | - | - | - | - |
| - | 270 | (78) | 29 | - | (3) | - | - |
| - | - | - | - | - | 1,432 | 237 | 1,368 |
| - | 272 | (78) | 29 | - | 1,429 | 237 | 1,368 |
| 16 | 1,773 | (105) | 1,292 | 57 | 44 | (5) | (31) |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | (470) | - | - | - | - |
| 16 | 1,773 | (105) | 822 | 57 | 44 | (5) | (31) |
| 815 | 1,504 | 1,920 | 4,930 | (96) | 413 | 216 | (80) |
| - | - | - | (219) | - | 19 | - | - |
| 815 | 1,504 | 1,920 | 4,711 | (96) | 432 | 216 | (80) |
| $ 831 | $ 3,277 | $ 1,815 | $ 5,533 | $ (39) | $ 476 | $ 211 | $ (111) |

*(Continued on Next Page)*

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**
**INTERNAL SERVICE FUNDS**
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
*(amounts expressed in thousands)*

| | DEQ INDIRECT COST POOL | PAYROLL PROCESSING | WARRANT PROCESSING | INVESTMENT DIVISION | AIRCRAFT OPERATION |
|---|---|---|---|---|---|
| **Operating revenues:** | | | | | |
| Charges for services | $ 4,360 | $ 4,265 | $ 994 | $ 4,869 | $ 599 |
| Investment earnings | - | - | - | - | - |
| Securities lending income | - | - | - | - | - |
| Securities lending expense | - | - | - | - | - |
| Contributions/premiums | - | - | - | - | - |
| Grants/contracts/donations | - | - | - | - | - |
| Other operating revenues | 9 | - | - | - | 1 |
| Total operating revenues | 4,369 | 4,265 | 994 | 4,869 | 600 |
| **Operating expenses:** | | | | | |
| Personal services | 3,900 | 1,764 | 207 | 2,371 | 1,122 |
| Contractual services | 755 | 1,148 | 223 | 1,190 | 72 |
| Supplies/materials | 252 | 107 | (21) | 35 | 204 |
| Benefits/claims | 152 | 76 | 15 | 70 | 32 |
| Depreciation | 51 | - | 23 | 1 | 14 |
| Amortization | 6 | 168 | - | 2 | - |
| Utilities/rent | 1,392 | 65 | 18 | 156 | 140 |
| Communications | 187 | 48 | 418 | 31 | 6 |
| Travel | 17 | 5 | - | 26 | 46 |
| Repair/maintenance | 89 | 386 | 22 | 1 | 337 |
| Interest expense | - | - | 4 | - | - |
| Other operating expenses | 231 | 64 | 13 | 452 | 12 |
| Total operating expenses | 7,032 | 3,831 | 922 | 4,335 | 1,985 |
| Operating income (loss) | (2,663) | 434 | 72 | 534 | (1,385) |
| **Nonoperating revenues (expenses):** | | | | | |
| Insurance proceeds | - | - | - | - | - |
| Gain (loss) on sale of capital assets | - | - | - | (2) | (2) |
| Federal indirect cost recoveries | 2,744 | - | - | - | - |
| Total nonoperating revenues (expenses) | 2,744 | - | - | (2) | (2) |
| Income (loss) before contributions and transfers | 81 | 434 | 72 | 532 | (1,387) |
| Capital contributions | - | - | - | - | - |
| Transfers in | - | - | - | - | 1,219 |
| Transfers out | (2) | - | - | (472) | (3) |
| Changes in net assets | 79 | 434 | 72 | 60 | (171) |
| Total net assets - July 1 - as previously reported | 107 | 24 | 127 | 214 | 246 |
| Prior period adjustments | - | - | 10 | - | 14 |
| Total net assets - July 1 - as restated | 107 | 24 | 137 | 214 | 260 |
| Total net assets - June 30 | $ 186 | $ 458 | $ 209 | $ 274 | $ 89 |

| | JUSTICE LEGAL SERVICES | PERSONNEL TRAINING | DEBT COLLECTION | PRISON INDUSTRIES | OTHER INTERNAL SERVICES | SABHRS FINANCE & BUDGET BUREAU | TOTAL |
|---|---|---|---|---|---|---|---|
| | $ 1,347 | $ 282 | $ 109 | $ 5,211 | $ 618 | $ 4,157 | $ 137,939 |
| | - | - | - | - | - | - | 2,473 |
| | - | - | - | - | - | - | 52 |
| | - | - | - | - | - | - | (22) |
| | - | - | - | - | - | - | 117,854 |
| | - | - | - | - | - | - | 2,235 |
| | - | - | - | - | - | - | 2,973 |
| | 1,347 | 282 | 109 | 5,211 | 618 | 4,157 | 263,504 |
| | 1,116 | 139 | 146 | 1,216 | 303 | 1,410 | 49,630 |
| | 87 | 43 | 11 | 61 | 65 | 1,557 | 23,658 |
| | 31 | 38 | 3 | 2,569 | 95 | 92 | 23,641 |
| | 38 | 7 | 10 | 69 | 14 | 48 | 109,803 |
| | - | - | - | 202 | 5 | - | 11,954 |
| | - | - | - | - | - | 257 | 534 |
| | 67 | 27 | 3 | 136 | 28 | 34 | 16,636 |
| | 24 | 7 | 10 | 6 | 5 | 23 | 12,233 |
| | 3 | 14 | - | - | 3 | 10 | 336 |
| | 4 | 1 | - | 42 | 16 | 942 | 10,556 |
| | - | - | - | - | - | - | 229 |
| | 13 | 6 | 1 | 59 | 16 | 97 | 4,710 |
| | 1,383 | 282 | 184 | 4,360 | 550 | 4,470 | 263,920 |
| | (36) | - | (75) | 851 | 68 | (313) | (416) |
| | - | - | - | - | - | - | 238 |
| | - | - | - | - | - | - | 17 |
| | - | - | - | - | 104 | - | 5,885 |
| | - | - | - | - | 104 | - | 6,140 |
| | (36) | - | (75) | 851 | 172 | (313) | 5,724 |
| | - | - | - | - | - | - | 1,306 |
| | - | - | - | - | - | - | 1,908 |
| | - | - | - | - | - | - | (1,587) |
| | (36) | - | (75) | 851 | 172 | (313) | 7,351 |
| | (155) | (38) | 185 | 3,151 | 184 | 1,162 | 139,466 |
| | - | - | - | - | - | - | 2,270 |
| | (155) | (38) | 185 | 3,151 | 184 | 1,162 | 141,736 |
| | $ (191) | $ (38) | $ 110 | $ 4,002 | $ 356 | $ 849 | $ 149,087 |

**COMBINING STATEMENT OF CASH FLOWS**
**INTERNAL SERVICE FUNDS**
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
*(amounts expressed in thousands)*

| | FWP EQUIPMENT | HIGHWAY EQUIPMENT | EMPLOYEE GROUP BENEFITS | INFO TECH SERVICES | ADMIN INSURANCE |
|---|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Receipt from sales and services | $ 3,668 | $ 23,980 | $ 107,043 | $ 44,490 | $ 11,758 |
| Payments to suppliers for goods and services | (1,960) | (12,113) | (6,995) | (20,836) | (5,646) |
| Payments to employees | (129) | (7,482) | (971) | (15,380) | (1,024) |
| Grant receipts | - | - | 2,235 | - | - |
| Cash payments for claims | - | - | (106,764) | - | (3,975) |
| Other operating revenues | - | 1 | 10,269 | 22 | - |
| Net cash provided by (used for) operating activities | 1,579 | 4,386 | 4,817 | 8,296 | 1,113 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | | | |
| Payment of principal and interest on bonds and notes | - | - | - | (288) | - |
| Transfers to other funds | - | - | - | - | (640) |
| Transfers from other funds | 73 | - | - | - | 615 |
| Proceeds from interfund loans/advances | 300 | - | - | - | - |
| Payment of interfund loans/advances | (585) | - | - | - | - |
| Contributed capital transfers from other funds | - | 1,008 | - | 298 | - |
| Net cash provided by (used for) noncapital financing activities | (212) | 1,008 | - | 10 | (25) |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | | |
| Proceeds from insurance | - | - | - | - | 235 |
| Acquisition of capital assets | (695) | (9,076) | - | (2,200) | 75 |
| Net cash used for capital and related financing activities | (695) | (9,076) | - | (2,200) | 310 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Purchase of investments | - | - | (1,954) | - | 299 |
| Proceeds from securities lending transactions | - | - | 41 | - | 12 |
| Interest and dividends on investments | - | - | 2,498 | - | 85 |
| Payment of securities lending costs | - | - | (18) | - | (4) |
| Net cash provided by (used for) investing activities | - | - | 567 | - | 392 |
| Net increase (decrease) in cash and cash equivalents | 672 | (3,682) | 5,384 | 6,106 | 1,790 |
| Cash and cash equivalents, July 1 | 12 | 7,176 | 19,393 | 3,303 | 22,548 |
| Cash and cash equivalents, June 30 | $ 684 | $ 3,494 | $ 24,777 | $ 9,409 | $ 24,338 |

| ADMIN SUPPLY | MOTOR POOL | PRINT & MAIL SERVICES | BUILDINGS & GROUNDS | ADMIN CENTRAL SERVICES | LABOR CENTRAL SERVICES | COMMERCE CENTRAL SERVICES | OPI CENTRAL SERVICES |
|---|---|---|---|---|---|---|---|
| $ 5,067 | $ 6,984 | $ 12,884 | $ 10,691 | $ 1,243 | $ 5,509 | $ 28 | $ 1,389 |
| (4,522) | (2,755) | (10,384) | (7,820) | (148) | (2,126) | (263) | (896) |
| (381) | (336) | (1,405) | (1,663) | (1,008) | (4,156) | (1,312) | (1,754) |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | 4 | - | - | 1 | - | 1,331 | 8 |
| 164 | 3,897 | 1,095 | 1,208 | 88 | (773) | (216) | (1,253) |
| - | (215) | - | - | - | 2 | - | - |
| - | - | - | (469) | - | - | 99 | - |
| - | - | - | - | - | - | - | 1,510 |
| 105 | (2,328) | - | - | - | (24) | 237 | - |
| - | 1,083 | - | - | - | - | - | - |
| - | 2 | - | - | - | - | - | - |
| 105 | (1,458) | - | (469) | - | (22) | 336 | 1,510 |
| - | - | - | - | - | - | - | - |
| - | (1,795) | (142) | (178) | - | 1,451 | (5) | - |
| - | (1,795) | (142) | (178) | - | 1,451 | (5) | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| 269 | 644 | 953 | 561 | 88 | 656 | 115 | 257 |
| 743 | 664 | 428 | 4,407 | 216 | 828 | 495 | 109 |
| $ 1,012 | $ 1,308 | $ 1,381 | $ 4,968 | $ 304 | $ 1,484 | $ 610 | $ 366 |

*(Continued on Next Page)*

**COMBINING STATEMENT OF CASH FLOWS - Continued**
**INTERNAL SERVICE FUNDS**
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
*(amounts expressed in thousands)*

| | DEQ INDIRECT COST POOL | PAYROLL PROCESSING | WARRANT PROCESSING | INVESTMENT DIVISION |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Receipts from sales and services | $ 4,299 | $ 4,267 | $ 1,095 | $ 4,907 |
| Payments to suppliers for goods and services | (2,805) | (1,834) | (770) | (1,893) |
| Payments to employees | (4,026) | (1,790) | (216) | (2,425) |
| Grant receipts | - | - | - | - |
| Cash payments for claims | - | - | - | - |
| Other operating revenues | 9 | - | - | - |
| Net cash provided by (used for) operating activities | (2,523) | 643 | 109 | 589 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | | |
| Payment of principal and interest on bonds and notes | - | - | (6) | - |
| Transfers to other funds | (1) | - | - | (473) |
| Transfers from other funds | 2,733 | - | - | |
| Proceeds from interfund loans/advances | - | - | - | - |
| Payment of interfund loans/advances | - | - | - | - |
| Contributed capital transfers from other funds | - | - | - | - |
| Net cash provided by (used for) noncapital financing activities | 2,732 | - | (6) | (473) |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | |
| Proceeds from insurance | - | - | - | - |
| Acquisition of capital assets | (8) | (82) | (16) | - |
| Net cash used for capital and related financing activities | (8) | (82) | (16) | - |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Purchase of investments | - | - | - | - |
| Proceeds from securities lending transactions | - | - | - | - |
| Interest and dividends on investments | - | - | - | - |
| Payment of securities lending costs | - | - | - | - |
| Net cash provided by (used for) investing activities | - | - | - | - |
| Net increase (decrease) in cash and cash equivalents | 201 | 561 | 87 | 116 |
| Cash and cash equivalents, July 1 | 548 | 230 | 157 | 861 |
| Cash and cash equivalents, June 30 | $ 749 | $ 791 | $ 244 | $ 977 |

| AIRCRAFT OPERATION | JUSTICE LEGAL SERVICES | PERSONNEL TRAINING | DEBT COLLECTION | PRISON INDUSTRIES | OTHER INTERNAL SERVICES | SABHRS FINANCE & BUDGET BUREAU | TOTAL |
|---|---|---|---|---|---|---|---|
| $ 621 | $ 1,460 | $ 285 | $ 109 | $ 5,534 | $ 623 | $ 4,158 | $ 262,092 |
| (814) | (233) | (147) | (30) | (3,123) | (182) | (2,874) | (91,169) |
| (1,143) | (1,149) | (178) | (145) | (1,249) | (282) | (1,465) | (51,069) |
| - | - | - | - | - | - | - | 2,235 |
| - | - | - | - | - | - | - | (110,739) |
| 1 | - | - | - | - | - | - | 11,646 |
| (1,335) | 78 | (40) | (66) | 1,162 | 159 | (181) | 22,996 |
| - | - | - | - | - | - | - | (507) |
| (2) | - | - | - | - | - | - | (1,486) |
| 1,218 | - | (1) | - | - | 104 | - | 6,252 |
| - | - | - | - | - | (4) | - | (1,714) |
| - | - | - | - | - | - | - | 498 |
| - | - | - | - | - | - | - | 1,308 |
| 1,216 | - | (1) | - | - | 100 | - | 4,351 |
| - | - | - | - | - | - | - | 235 |
| - | - | - | - | - | - | - | (12,671) |
| - | - | - | - | - | - | - | (12,436) |
| - | - | - | - | - | - | - | (1,655) |
| - | - | - | - | - | - | - | 53 |
| - | - | - | - | - | - | - | 2,583 |
| - | - | - | - | - | - | - | (22) |
| - | - | - | - | - | - | - | 959 |
| (119) | 78 | (41) | (66) | 1,162 | 259 | (181) | 15,870 |
| 469 | 111 | 41 | 212 | 649 | 97 | 1,054 | 64,751 |
| $ 350 | $ 189 | $ - | $ 146 | $ 1,811 | $ 356 | $ 873 | $ 80,621 |

*(Continued on Next Page)*

**COMBINING STATEMENT OF CASH FLOWS - Continued**
**INTERNAL SERVICE FUNDS**
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
*(amounts expressed in thousands)*

| | FWP EQUIPMENT | HIGHWAY EQUIPMENT | EMPLOYEE GROUP BENEFITS | INFO TECH SERVICES | ADMIN INSURANCE |
|---|---|---|---|---|---|
| **Reconciliation of operating income to net cash provided by operating activities:** | | | | | |
| Operating income (loss) | $ 781 | $ (720) | $ 1,894 | $ 278 | $ 80 |
| **Adjustments to reconcile operating income to net cash provided by (used for) operating activities:** | | | | | |
| Depreciation | 549 | 5,960 | - | 2,255 | - |
| Amortization | 7 | - | 22 | - | 60 |
| Interest expense | - | - | - | 27 | - |
| Securities lending expense | - | - | 18 | - | (4) |
| Investment earnings | - | - | (2,396) | - | (77) |
| Securities lending income | - | - | (41) | - | (12) |
| Federal indirect cost recoveries | - | - | - | - | - |
| Change in assets and liabilities: | | | | | |
| Decr (incr) in accounts receivable | - | 19 | 5,759 | (6) | 8 |
| Decr (incr) in due from other funds | 246 | (71) | 13 | 2,882 | 80 |
| Decr (incr) in due from component units | - | 1 | - | 188 | 6 |
| Decr (incr) in due from other governments | - | - | - | - | - |
| Decr (incr) in inventories | - | (148) | - | - | - |
| Decr (incr) in other assets | - | 1 | (7) | (1) | (50) |
| Incr (decr) in accounts payable | (12) | (906) | 94 | 2,462 | (621) |
| Incr (decr) in due to other funds | (3) | - | (8) | (254) | (112) |
| Incr (decr) in due to component units | - | - | - | - | (8) |
| Incr (decr) in deferred revenue | - | - | 95 | - | - |
| Incr (decr) in compensated absences payable | 2 | (75) | (25) | (45) | 5 |
| Incr (decr) in OPEB implicit rate subsidy | 9 | 325 | 39 | 510 | 40 |
| Incr (decr) in estimated claims | - | - | (640) | - | 1,718 |
| Net cash provided by (used for) operating activities | $ 1,579 | $ 4,386 | $ 4,817 | $ 8,296 | $ 1,113 |

| ADMIN SUPPLY | MOTOR POOL | PRINT & MAIL SERVICES | BUILDINGS & GROUNDS | ADMIN CENTRAL SERVICES | LABOR CENTRAL SERVICES | COMMERCE CENTRAL SERVICES | OPI CENTRAL SERVICES |
|---|---|---|---|---|---|---|---|
| $ 16 | $ 1,501 | $ (27) | $ 1,263 | $ 57 | $ (1,385) | $ (242) | $ (1,399) |
| 1 | 2,349 | 319 | 177 | - | 35 | 13 | - |
| - | - | - | - | - | 12 | - | - |
| - | 198 | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | 1,432 | 237 | 1,368 |
| (2) | - | (47) | (2) | - | - | - | - |
| 205 | 155 | 724 | 232 | - | 365 | (237) | (1,189) |
| 9 | 8 | 43 | - | - | (1,424) | 3 | 2 |
| - | - | - | - | - | | - | - |
| 57 | - | 15 | - | - | - | - | - |
| - | - | (248) | (230) | 1 | 2 | 1 | - |
| (144) | (270) | 257 | (241) | (15) | (54) | (42) | (56) |
| (4) | (55) | (12) | (91) | (3) | - | (12) | (47) |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| 4 | (4) | (16) | 5 | 9 | 65 | 13 | (3) |
| 22 | 15 | 87 | 95 | 39 | 179 | 50 | 71 |
| - | - | - | - | - | - | - | |
| $ 164 | $ 3,897 | $ 1,095 | $ 1,208 | $ 88 | $ (773) | $ (216) | $ (1,253) |

*(Continued on Next Page)*

**COMBINING STATEMENT OF CASH FLOWS - Continued**
**INTERNAL SERVICE FUNDS**
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
*(amounts expressed in thousands)*

| | DEQ INDIRECT COST POOL | PAYROLL PROCESSING | WARRANT PROCESSING | INVESTMENT DIVISION |
|---|---|---|---|---|
| **Reconciliation of operating income to net cash provided by operating activities:** | | | | |
| Operating income (loss) | $ (2,663) | $ 434 | $ 72 | $ 534 |
| **Adjustments to reconcile operating income to net cash provided by (used for) operating activities:** | | | | |
| Depreciation | 51 | - | 23 | 1 |
| Amortization | 6 | 168 | - | 2 |
| Interest expense | - | - | 4 | - |
| Securities lending expense | - | - | - | - |
| Investment earnings | - | - | - | - |
| Securities lending income | | - | - | - |
| Federal indirect cost recoveries | 2,744 | - | - | - |
| Change in assets and liabilities: | | | | |
| Decr (incr) in accounts receivable | 1 | - | - | - |
| Decr (incr) in due from other funds | (2,810) | 1 | 82 | (9) |
| Decr (incr) in due from component units | 3 | - | 19 | 46 |
| Decr (incr) in due from other governments | - | - | - | - |
| Decr (incr) in inventories | - | - | (26) | - |
| Decr (incr) in other assets | 15 | 1 | 2 | 10 |
| Incr (decr) in accounts payable | 5 | 35 | (10) | (68) |
| Incr (decr) in due to other funds | (24) | (93) | (70) | (6) |
| Incr (decr) in due to component units | - | - | - | (9) |
| Incr (decr) in deferred revenue | - | - | - | - |
| Incr (decr) in compensated absences payable | (3) | 21 | (2) | 18 |
| Incr (decr) in OPEB implicit rate subsidy | 152 | 76 | 15 | 70 |
| Incr (decr) in estimated claims | - | - | - | - |
| Net cash provided by (used for) operating activities | $ (2,523) | $ 643 | $ 109 | $ 589 |

| AIRCRAFT OPERATION | JUSTICE LEGAL SERVICES | PERSONNEL TRAINING | DEBT COLLECTION | PRISON INDUSTRIES | OTHER INTERNAL SERVICES | SABHRS FINANCE & BUDGET BUREAU | TOTAL |
|---|---|---|---|---|---|---|---|
| $ (1,385) | $ (36) | $ - | $ (75) | $ 851 | $ 68 | $ (313) | $ (416) |
| 14 | - | - | - | 201 | 5 | - | 11,953 |
| - | - | - | - | - | - | 258 | 535 |
| - | - | - | - | - | - | - | 229 |
| - | - | - | - | - | - | - | 14 |
| - | - | - | - | - | - | - | (2,473) |
| - | - | - | - | - | - | - | (53) |
| - | - | - | - | - | 104 | - | 5,885 |
| 17 | - | - | - | - | - | - | 5,747 |
| 5 | 112 | 7 | - | 321 | (100) | - | 1,014 |
| - | 2 | - | - | - | - | - | (1,094) |
| - | - | (4) | - | - | - | - | (4) |
| - | - | - | - | (19) | (27) | - | (148) |
| - | - | - | - | - | - | - | (503) |
| (37) | (31) | (19) | - | (47) | 82 | (39) | 323 |
| - | (3) | (1) | (1) | (215) | (5) | (121) | (1,140) |
| - | - | - | - | - | - | - | (17) |
| - | - | - | - | - | - | - | 95 |
| 19 | (4) | (30) | - | 1 | 18 | (14) | (41) |
| 32 | 38 | 7 | 10 | 69 | 14 | 48 | 2,012 |
| - | - | - | - | - | - | - | 1,078 |
| $ (1,335) | $ 78 | $ (40) | $ (66) | $ 1,162 | $ 159 | $ (181) | $ 22,996 |

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# PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS

These funds provide retirement, disability, death, and lump-sum payments to retirement system members. A brief description of each fund follows:

**Public Employee Retirement System - Defined Benefit Retirement Plan** – This fund provides retirement benefits to substantially all public employees not covered by another public system.

**Municipal Police Officers Retirement System** – This fund provides retirement benefits to all municipal police officers covered by the plan.

**Firefighters Unified Retirement System** – This fund provides retirement benefits for firefighters employed by first and second-class cities and other cities that wish to adopt the plan, and firefighters hired by the Montana Air National Guard.

**Sheriffs Retirement System** – This fund provides retirement benefits for sheriffs, detention officers, and State Department of Justice investigators.

**Highway Patrol Officers Retirement System** – This fund provides retirement benefits for all members of the Montana Highway Patrol.

**Judges Retirement System** – This fund provides retirement benefits for all district court judges, justices of the Supreme Court, and the Chief Water Judge.

**Game Wardens & Peace Officers Retirement System** – This fund provides retirement benefits for all persons employed as game wardens, supervisory personnel, and state peace officers.

**Volunteer Firefighters Compensation Act** – This fund provides medical benefits and pension, disability, and death benefits for all volunteer firefighters who are members of eligible volunteer fire companies in unincorporated areas of the State.

**Public Employee Retirement System - Defined Contribution Retirement Plan** – Members of the defined contribution retirement plan decide how to invest their contributions and a portion of their employer contributions in the available investment options.

**Public Employee 457 Plan** – All employees of the State, Montana University System, and contracting political subdivisions are eligible to participate in this plan. The 457 plan is a voluntary, tax-deferred retirement plan designed to supplement state service retirement, Social Security, and other retirement plans and savings.

**Teachers Retirement System** – This fund provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the university system.

**Voluntary Employee Benefit Association** – This fund provides members with individual health care expense trust accounts to pay the qualified health care expenses of members and their dependents and beneficiaries.

**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**
**PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS**
JUNE 30, 2010
*(amounts expressed in thousands)*

| | PUBLIC EMPLOYEES RETIREMENT BOARD (PERB) | | | | | |
|---|---|---|---|---|---|---|
| | PUBLIC EMPLOYEES DEFINED BENEFITS | MUNICIPAL POLICE | FIRE FIGHTERS UNIFIED | SHERIFFS | HIGHWAY PATROL | JUDGES |
| **ASSETS** | | | | | | |
| Cash/cash equivalents | $ 62,711 | $ 2,323 | $ 2,665 | $ 4,648 | $ 1,690 | $ 1,470 |
| Receivables (net): | | | | | | |
| Accounts receivable | 1,027 | 124 | 124 | 125 | - | - |
| Interest | 5,424 | 287 | 282 | 275 | 134 | 84 |
| Due from primary government | - | 10,932 | 10,872 | - | - | - |
| Due from other PERB plans | 3 | - | - | - | - | - |
| Long-term notes/loans receivable | 32 | - | - | - | - | - |
| Total receivables | 6,486 | 11,343 | 11,278 | 400 | 134 | 84 |
| Investments at fair value: | | | | | | |
| Equity in pooled investments | 3,215,729 | 173,363 | 170,373 | 167,329 | 80,971 | 50,920 |
| Other investments | 31,912 | 148 | 170 | 287 | 94 | 89 |
| Total investments | 3,247,641 | 173,511 | 170,543 | 167,616 | 81,065 | 51,009 |
| Securities lending collateral | 215,178 | 11,631 | 11,432 | 11,302 | 5,446 | 3,440 |
| Capital assets: | | | | | | |
| Land | - | - | - | - | - | - |
| Buildings/improvements | - | - | - | - | - | - |
| Equipment | 5 | - | - | - | - | - |
| Accumulated depreciation | (5) | - | - | - | - | - |
| Intangible assets | 211 | 2 | 2 | 2 | 2 | 2 |
| Total capital assets | 211 | 2 | 2 | 2 | 2 | 2 |
| Other assets | - | - | - | - | - | - |
| Total assets | 3,532,227 | 198,810 | 195,920 | 183,968 | 88,337 | 56,005 |
| **LIABILITIES** | | | | | | |
| Accounts payable | 321 | - | 1 | 25 | - | - |
| Due to other PERB plans | 294 | - | - | - | - | - |
| Deferred revenue | 85 | 31 | 4 | - | - | - |
| Securities lending liability | 215,178 | 11,631 | 11,432 | 11,302 | 5,446 | 3,440 |
| Compensated absences payable | 237 | - | - | - | - | - |
| OPEB implicit rate subsidy | 208 | 5 | 4 | 6 | 2 | - |
| Total liabilities | 216,323 | 11,667 | 11,441 | 11,333 | 5,448 | 3,440 |
| **NET ASSETS** | | | | | | |
| Held in trust for pension benefits and other purposes | $ 3,315,904 | $ 187,143 | $ 184,479 | $ 172,635 | $ 82,889 | $ 52,565 |

PUBLIC EMPLOYEES RETIREMENT BOARD (PERB)

| GAME WARDENS PEACE OFFICERS | VOLUNTEER FIRE FIGHTERS | PUBLIC EMPLOYEES DEFINED CONTRIBUTION | PUBLIC EMPLOYEES 457 PLAN | TEACHERS RETIREMENT SYSTEM | VOLUNTARY EMPLOYEE BENEFIT ASSOCIATION | TOTAL |
|---|---|---|---|---|---|---|
| $ 2,829 | $ 1,392 | $ 2,691 | $ 804 | $ 44,365 | $ 1,669 | $ 129,257 |
| - | - | - | 3 | 19,917 | 3 | 21,323 |
| 117 | 35 | 1 | - | 4,111 | - | 10,750 |
| - | - | - | - | - | - | 21,804 |
| - | - | 291 | - | - | - | 294 |
| - | - | - | - | - | - | 32 |
| 117 | 35 | 292 | 3 | 24,028 | 3 | 54,203 |
| 71,063 | 21,122 | - | - | 2,426,072 | - | 6,376,942 |
| 164 | 89 | 56,838 | 320,368 | 27,169 | 1,289 | 438,617 |
| 71,227 | 21,211 | 56,838 | 320,368 | 2,453,241 | 1,289 | 6,815,559 |
| 4,806 | 1,470 | 107 | 31 | 162,097 | - | 426,940 |
| - | - | - | - | 35 | - | 35 |
| - | - | - | - | 158 | - | 158 |
| - | - | - | - | 143 | - | 148 |
| - | - | - | - | (200) | - | (205) |
| 2 | 1 | 5 | 2 | 106 | - | 337 |
| 2 | 1 | 5 | 2 | 242 | - | 473 |
| - | - | - | - | 7 | - | 7 |
| 78,981 | 24,109 | 59,933 | 321,208 | 2,683,980 | 2,961 | 7,426,439 |
| 34 | - | 96 | 283 | 111 | 31 | 902 |
| - | - | - | - | - | - | 294 |
| - | - | - | - | - | - | 120 |
| 4,806 | 1,470 | 107 | 31 | 162,097 | - | 426,940 |
| - | - | 17 | 11 | 183 | - | 448 |
| 4 | 4 | 24 | 18 | 144 | - | 419 |
| 4,844 | 1,474 | 244 | 343 | 162,535 | 31 | 429,123 |
| $ 74,137 | $ 22,635 | $ 59,689 | $ 320,865 | $ 2,521,445 | $ 2,930 | $ 6,997,316 |

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**
**PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS**
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
*(amounts expressed in thousands)*

| | PUBLIC EMPLOYEES RETIREMENT BOARD (PERB) | | | | | |
|---|---|---|---|---|---|---|
| | PUBLIC EMPLOYEES DEFINED BENEFIT | MUNICIPAL POLICE | FIRE-FIGHTERS UNIFIED | SHERIFFS | HIGHWAY PATROL | JUDGES |
| **ADDITIONS** | | | | | | |
| Contributions/premiums: | | | | | | |
| Employer | $ 80,246 | $ 6,860 | $ 5,129 | $ 5,637 | $ 4,763 | $ 1,468 |
| Employee | 78,614 | 4,046 | 4,362 | 5,325 | 1,261 | 595 |
| Other contributions | 669 | 11,027 | 10,928 | 12 | 288 | - |
| Net investment earnings: | | | | | | |
| Investment earnings | 406,893 | 20,971 | 20,587 | 20,437 | 10,187 | 6,309 |
| Administrative investment expenses | (20,229) | (1,063) | (1,044) | (1,029) | (503) | (315) |
| Securities lending income | 1,661 | 90 | 88 | 87 | 42 | 27 |
| Securities lending expense | (464) | (25) | (25) | (24) | (12) | (7) |
| Charges for services | 4 | - | - | - | - | - |
| Other additions | - | - | - | - | - | - |
| Total additions | 547,394 | 41,906 | 40,025 | 30,445 | 16,026 | 8,077 |
| **DEDUCTIONS** | | | | | | |
| Benefits | 212,252 | 15,729 | 14,599 | 8,279 | 7,557 | 2,118 |
| Refunds | 11,848 | 913 | 86 | 799 | 58 | - |
| Administrative expenses: | | | | | | |
| Personal services | 1,683 | - | - | - | - | - |
| Contractual services | 864 | 1 | 8 | 8 | 4 | 1 |
| Supplies/materials | 88 | - | - | - | - | - |
| Depreciation | () | - | - | - | - | - |
| Amortization | 109 | 1 | 1 | 1 | 1 | 1 |
| Utilities/rent | 194 | - | - | - | - | - |
| Communications | 115 | - | - | - | - | - |
| Travel | 36 | - | - | - | - | - |
| Repair/maintenance | - | - | - | - | - | - |
| Other operating expenses | 103 | 76 | 62 | 88 | 29 | 9 |
| Local assistance | - | - | - | - | - | - |
| Transfer to ORP | 175 | - | - | - | - | - |
| Transfer to PERS-DCRP | 860 | - | - | - | - | - |
| Total deductions | 228,327 | 16,720 | 14,756 | 9,175 | 7,649 | 2,129 |
| Changes in net assets | 319,067 | 25,186 | 25,269 | 21,270 | 8,377 | 5,948 |
| Net assets- July 1- as previously reported | 2,998,359 | 162,042 | 159,295 | 151,447 | 74,549 | 46,641 |
| Prior period adjustments | (1,522) | (85) | (85) | (82) | (37) | (24) |
| Net assets - July 1- as restated | 2,996,837 | 161,957 | 159,210 | 151,365 | 74,512 | 46,617 |
| Net assets - June 30 | $ 3,315,904 | $ 187,143 | $ 184,479 | $ 172,635 | $ 82,889 | $ 52,565 |

| PUBLIC EMPLOYEES RETIREMENT BOARD (PERB) | | | | | | |
|---|---|---|---|---|---|---|
| GAME WARDENS/ PEACE OFFICERS | VOLUNTEER FIRE-FIGHTERS | PUBLIC EMPLOYEES DEFINED CONTRIBUTION | PUBLIC EMPLOYEES 457 PLAN | TEACHERS RETIREMENT SYSTEM | VOLUNTARY EMPLOYEE BENEFIT ASSOCIATION | TOTAL |
| $ 3,612 | $ - | $ 4,029 | $ 61 | $ 72,179 | $ 1,553 | $ 185,537 |
| 4,334 | - | 6,140 | 18,607 | 62,845 | - | 186,129 |
| 6 | 1,575 | - | - | 17,242 | - | 41,747 |
| 8,326 | 2,689 | 6,121 | 37,829 | 309,402 | (67) | 849,684 |
| (429) | (131) | - | (627) | (15,351) | - | (40,721) |
| 36 | 11 | 1 | - | 1,254 | - | 3,297 |
| (10) | (3) | - | - | (350) | - | (920) |
| - | - | 164 | 330 | - | - | 498 |
| - | - | 323 | - | 65 | - | 388 |
| 15,875 | 4,141 | 16,778 | 56,200 | 447,286 | 1,486 | 1,225,639 |
| 2,623 | 1,858 | 1,955 | 13,404 | 220,241 | 1,036 | 501,651 |
| 900 | - | - | - | 4,166 | - | 18,770 |
| - | - | 194 | 136 | 1,099 | 25 | 3,137 |
| 1 | - | 397 | 1,080 | 416 | 10 | 2,790 |
| - | - | 11 | 7 | 27 | - | 133 |
| - | - | - | - | 9 | - | 9 |
| 1 | - | 2 | 3 | 109 | - | 229 |
| - | - | 25 | 15 | 63 | - | 297 |
| - | - | 7 | 7 | 57 | - | 186 |
| - | - | 6 | 5 | 16 | - | 63 |
| - | - | - | - | 40 | - | 40 |
| 55 | 58 | 16 | 8 | 71 | 38 | 613 |
| - | 17 | - | - | - | - | 17 |
| - | - | - | - | - | - | 175 |
| - | - | - | - | - | - | 860 |
| 3,580 | 1,933 | 2,613 | 14,665 | 226,314 | 1,109 | 528,970 |
| 12,295 | 2,208 | 14,165 | 41,535 | 220,972 | 377 | 696,669 |
| 61,880 | 20,436 | 45,524 | 279,330 | 2,301,619 | 2,359 | 6,303,481 |
| (38) | (9) | - | - | (1,146) | 194 | (2,834) |
| 61,842 | 20,427 | 45,524 | 279,330 | 2,300,473 | 2,553 | 6,300,647 |
| $ 74,137 | $ 22,635 | $ 59,689 | $ 320,865 | $ 2,521,445 | $ 2,930 | $ 6,997,316 |

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# PRIVATE-PURPOSE TRUST FUNDS

Private-purpose trust funds are used to account for assets held by the State in a trustee capacity, where both the trust principal and earnings benefit individuals, private organizations, or other governments. A brief description of each private-purpose trust fund follows:

**College Savings Plan** – This fund accounts for monies contributed towards a "qualified tuition program" under section 529 of the Internal Revenue Code of 1986, as amended. This plan is a voluntary college savings plan whose participants are both Montana residents and out-of-state individuals.

**Escheated Property** – This fund accounts for property that has reverted to the State due to the absence of legal claimants or heirs and is held in trust for distribution to these heirs when identified.

**Plan Securities** – This fund accounts for the unliquidated security bonds held on deposit from self-insured employers. These funds either revert to the employer at a later date or are cashed and assumed by the State to be used on the employee's behalf.

**Woodville Highway Replacement** – This fund accounts for money paid to the Montana Department of Transportation by the Anaconda Company to provide the government of Butte-Silver Bow with traffic facilities. This money is held on deposit for the city/county government and is distributed to them at their request.

**Moore-Sipple Connector** – Money is held in trust to ensure the continued operation of the Moore-Sipple Connector. The balance in this fund reverts to the railroad company if the line is in operation until 2010. As the result of a court order, until this date is reached, the interest earnings on this money are provided to Central Montana Rail, Inc. for use in operating the railroad. The balance in the fund is currently retained in the fund by the Department of Transportation.

**Environmental Reclamation** – This fund accounts for environmental reclamation bonds held in trust to be either returned to the company upon successful reclamation of mining properties and related impacts or to be used by the State to complete the related reclamation process.

**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**
**PRIVATE-PURPOSE TRUST FUNDS**
JUNE 30, 2010
*(amounts expressed in thousands)*

| | COLLEGE SAVINGS PLAN | ESCHEATED PROPERTY | PLAN SECURITIES | WOODVILLE HIGHWAY REPLACEMENT |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash/cash equivalents | $ 125,305 | $ 2,312 | $ - | $ 44 |
| Receivables (net): | | | | |
| Interest | - | 1 | - | - |
| Total receivables | - | 1 | - | - |
| Investments at fair value: | | | | |
| Other investments | 118,992 | 141 | - | 3 |
| Total investments | 118,992 | 141 | - | 3 |
| Securities lending collateral | - | 90 | - | 2 |
| Other assets | - | - | 19,508 | - |
| Total assets | 244,297 | 2,544 | 19,508 | 49 |
| **LIABILITIES** | | | | |
| Accounts payable | - | 11 | - | - |
| Securities lending liability | - | 90 | - | 2 |
| Total liabilities | - | 101 | - | 2 |
| **NET ASSETS** | | | | |
| Held in trust for other purposes | $ 244,297 | $ 2,443 | $ 19,508 | $ 47 |

| MOORE-SIPPLE CONNECTOR | ENVIRONMENTAL RECLAMATION | TOTAL |
|---|---|---|
| $ 225 | $ 19,081 | $ 146,967 |
| - | 6 | 7 |
| - | 6 | 7 |
| 14 | 1,161 | 120,311 |
| 14 | 1,161 | 120,311 |
| 9 | 742 | 843 |
| - | 2,982 | 22,490 |
| 249 | 23,972 | 290,618 |
| - | - | 11 |
| 9 | 742 | 843 |
| 9 | 742 | 854 |
| $ 239 | $ 23,230 | $ 289,764 |

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**
**PRIVATE-PURPOSE TRUST FUNDS**
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
*(amounts expressed in thousands)*

| | COLLEGE SAVINGS PLAN | ESCHEATED PROPERTY | PLAN SECURITIES | WOODVILLE HIGHWAY REPLACEMENT |
|---|---|---|---|---|
| **ADDITIONS** | | | | |
| Participant contributions | $ 32,623 | $ - | $ 3,132 | $ - |
| Net investment earnings: | | | | |
| Investment earnings | 15,635 | 6 | - | - |
| Securities lending income | - | 1 | - | - |
| Other additions | - | 4,213 | - | - |
| Total additions | 48,258 | 4,220 | 3,132 | - |
| **DEDUCTIONS** | | | | |
| Distributions | 31,314 | 3,048 | 159 | - |
| Administrative expenses: | | | | |
| Contractual services | 1,899 | - | - | - |
| Total deductions | 33,213 | 3,048 | 159 | - |
| Change in net assets | 15,045 | 1,172 | 2,973 | - |
| Net assets - July 1 - as previously reported | 229,252 | 1,271 | 16,535 | 47 |
| Net assets - July 1 - as restated | 229,252 | 1,271 | 16,535 | 47 |
| Net assets - June 30 | $ 244,297 | $ 2,443 | $ 19,508 | $ 47 |

| MOORE-SIPPLE CONNECTOR | ENVIRONMENTAL RECLAMATION | TOTAL |
|---|---|---|
| $ - | $ - | $ 35,755 |
| 1 | 57 | 15,699 |
| - | 9 | 10 |
| - | 641 | 4,854 |
| 1 | 707 | 56,318 |
| - | 415 | 34,936 |
| - | - | 1,899 |
| - | 415 | 36,835 |
| 1 | 292 | 19,483 |
| 238 | 22,938 | 270,281 |
| 238 | 22,938 | 270,281 |
| $ 239 | $ 23,230 | $ 289,764 |

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# AGENCY FUNDS

Agency funds are used to account for assets held by the State as an agent for individuals, private organizations, and other governments. A brief description of each agency fund follows:

**Performance Deposits** – This fund accounts for deposits held by the State pending compliance with performance agreements.

**Central Payroll** – This fund accounts for the accumulation of state employee payroll and withholding by the Department of Administration, pending remittance to employees and other appropriate third parties.

**Criminal Offender Restitution** – Accounts for restitution payments received from prisoners and disbursed to their victims.

**Custodial Accounts** – This fund accounts for monies belonging to state institution residents, students of the School for the Deaf and Blind, and participants in the foster children and protective services programs. The fund also accounts for balances held by the Office of the Commissioner of Higher Education for remittance, on behalf of eligible employees of the Montana University System, to the TIAA-CREF (Teachers Insurance and Annuity Association-College Retirement Equities Fund) retirement fund. Department of Transportation employee union pension monies are held in this fund, awaiting remittance to the corresponding union. This fund also accounts for wages collected from employers on behalf of employee wage complaints filed under authority of the Montana Wages and Wage Protection Act.

**Child Support Collections** – This fund accounts for payments from parents under the Child Support Enforcement Program administered by the Department of Public Health and Human Services.

**Uncleared Collections** – This fund accounts for resources held pending distribution to other funds and local governments. The balances in this fund related to other fund types are distributed to those funds each fiscal year-end. Balances remaining relate to external parties.

**Intergovernmental** – This fund accounts for resources that flow through state agencies to federal and local governments.

**Debt Collection** – This fund accounts for amounts due to the State which have been written off as uncollectible by the receiving agency. The Department of Revenue continues to attempt to collect amounts owing for a period of time after they are deemed uncollectible by the receiving agency.

**Milk Passthrough** – This fund accounts for the distribution of the proceeds from the sale of pooled milk.

**OPEB State** – This fund accounts for the State's employee contributions received and premium payments made during the year for OPEB (Other Postemployment Benefits).

**OPEB MUS** – This fund accounts for the Montana University System's (MUS) employee contributions received and premium payments made during the year for OPEB (Other Postemployment Benefits).

**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**
**AGENCY FUNDS**
JUNE 30, 2010
*(amounts expressed in thousands)*

| | PERFORMANCE DEPOSITS | CENTRAL PAYROLL | CRIMINAL OFFENDER RESTITUTION | CUSTODIAL ACCOUNTS | CHILD SUPPORT COLLECTIONS |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash/cash equivalents | $ 1,820 | $ 20,989 | $ 120 | $ 1,667 | $ 45 |
| Receivables (net): | | | | | |
| Accounts receivable | - | - | - | 28 | 365 |
| Total receivables | - | - | - | 28 | 365 |
| Investments at fair value: | | | | | |
| Other investments | - | - | - | 17 | - |
| Total investments | - | - | - | 17 | - |
| Securities lending collateral | - | - | - | 11 | - |
| Other assets | 12,203 | - | - | 13 | - |
| Total assets | 14,023 | 20,989 | 120 | 1,736 | 410 |
| **LIABILITIES** | | | | | |
| Accounts payable | 113 | - | 5 | 122 | 115 |
| Amounts held in custody for others | 13,910 | 20,989 | 115 | 1,603 | 295 |
| Securities lending liability | - | - | - | 11 | - |
| Total liabilities | 14,023 | 20,989 | 120 | 1,736 | 410 |
| **NET ASSETS** | | | | | |
| Held in trust for pension benefits and other purposes | $ - | $ - | $ - | $ - | $ - |

| UNCLEARED COLLECTIONS | INTER-GOVERNMENTAL | DEBT COLLECTION | MILK PASS-THROUGH | TOTAL |
|---|---|---|---|---|
| $ 197 | $ 127 | $ 162 | $ 61 | $ 25,188 |
| - | - | - | - | 393 |
| - | - | - | - | 393 |
| - | - | - | - | 17 |
| - | - | - | - | 17 |
| - | - | - | - | 11 |
| - | - | - | - | 12,216 |
| 197 | 127 | 162 | 61 | 37,825 |
| 195 | 68 | 2 | 39 | 659 |
| 2 | 59 | 160 | 22 | 37,155 |
| - | - | - | - | 11 |
| 197 | 127 | 162 | 61 | 37,825 |
| $ - | $ - | $ - | $ - | $ - |

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**
**AGENCY FUNDS**
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
*(amounts expressed in thousands)*

| FUND | BALANCE JUNE 30, 2009 | ADDITIONS | DEDUCTIONS | BALANCE JUNE 30, 2010 |
|---|---|---|---|---|
| **PERFORMANCE DEPOSITS:** | | | | |
| **ASSETS** | | | | |
| Cash/cash equivalents | $ 1,783 | $ 172,184 | 172,147 | $ 1,820 |
| Receivables (net) | - | 27 | 27 | - |
| Other assets | 13,299 | 698 | 1,794 | 12,203 |
| Total assets | $ 15,082 | $ 172,909 | 173,968 | $ 14,023 |
| **LIABILITIES** | | | | |
| Accounts payable | $ 15 | $ 1,768 | 1,670 | $ 113 |
| Amounts held in custody for others | 15,067 | 3,476 | 4,633 | 13,910 |
| Total liabilities | $ 15,082 | $ 5,244 | 6,303 | $ 14,023 |
| **CENTRAL PAYROLL:** | | | | |
| **ASSETS** | | | | |
| Cash/cash equivalents | $ 5,982 | $ 909,583 | 894,576 | $ 20,989 |
| Receivables (net) | - | - | - | - |
| Total assets | $ 5,982 | $ 909,583 | 894,576 | $ 20,989 |
| **LIABILITIES** | | | | |
| Accounts payable | $ - | $ 10,994 | 10,994 | $ - |
| Amounts held in custody for others | 5,982 | 858,957 | 843,950 | 20,989 |
| Total liabilities | $ 5,982 | $ 869,951 | 854,944 | $ 20,989 |
| **CRIMINAL OFFENDER RESTITUTION:** | | | | |
| **ASSETS** | | | | |
| Cash/cash equivalents | $ 86 | $ 4,424 | 4,390 | $ 120 |
| Total assets | $ 86 | $ 4,424 | 4,390 | $ 120 |
| **LIABILITIES** | | | | |
| Accounts Payable | $ 12 | $ 2,385 | 2,393 | $ 5 |
| Amounts held custody others | 72 | 4,421 | 4,378 | 115 |
| Total liabilities | $ 84 | $ 6,806 | 6,771 | $ 120 |
| **CUSTODIAL ACCOUNTS:** | | | | |
| **ASSETS** | | | | |
| Cash/cash equivalents | $ 1,797 | $ 8,851 | 8,981 | $ 1,667 |
| Receivables (net) | 29 | 29 | 30 | 28 |
| Investments | 29 | 41 | 53 | 17 |
| Securities lending collateral | 23 | 33 | 45 | 11 |
| Other assets | - | 13 | - | 13 |
| Total assets | $ 1,878 | $ 8,967 | 9,109 | $ 1,736 |
| **LIABILITIES** | | | | |
| Accounts Payable | $ 102 | $ 2,574 | 2,554 | $ 122 |
| Amts held custody others | 1,753 | 10,261 | 10,411 | 1,603 |
| Securities lending liability | 23 | 33 | 45 | 11 |
| Total liabilities | $ 1,878 | $ 12,868 | 13,010 | $ 1,736 |

| FUND | BALANCE JUNE 30, 2009 | ADDITIONS | DEDUCTIONS | BALANCE JUNE 30, 2010 |
|---|---|---|---|---|
| **CHILD SUPPORT COLLECTIONS:** | | | | |
| **ASSETS** | | | | |
| Cash/cash equivalents | $ 663 | $ 76,550 | 77,168 | $ 45 |
| Receivables (net) | 354 | 29 | 18 | 365 |
| Total assets | $ 1,017 | $ 76,579 | 77,186 | $ 410 |
| **LIABILITIES** | | | | |
| Accounts Payable | $ 149 | $ 54,712 | 54,746 | $ 115 |
| Amounts held custody others | 868 | 76,534 | 77,107 | 295 |
| Total liabilities | $ 1,017 | $ 131,246 | 131,853 | $ 410 |
| **UNCLEARED COLLECTIONS:** | | | | |
| **ASSETS** | | | | |
| Cash/cash equivalents | $ 489 | $ 23,957,898 | 23,958,190 | $ 197 |
| Due from other governments | 112 | - | 112 | - |
| Receivables (net) | - | 50 | 50 | - |
| Investments | - | 15,000 | 15,000 | - |
| Total assets | $ 601 | $ 23,972,948 | 23,973,352 | $ 197 |
| **LIABILITIES** | | | | |
| Accounts Payable | $ 599 | $ 3,617 | 4,021 | $ 195 |
| Amounts held in custody others | 2 | 2 | 2 | 2 |
| Total liabilities | $ 601 | $ 3,619 | 4,023 | $ 197 |
| **INTERGOVERNMENTAL:** | | | | |
| **ASSETS** | | | | |
| Cash/cash equivalents | $ 235 | $ 2,383 | 2,491 | $ 127 |
| Total assets | $ 235 | $ 2,383 | 2,491 | $ 127 |
| **LIABILITIES** | | | | |
| Accounts Payable | $ 188 | $ 2,176 | 2,296 | $ 68 |
| Amounts held in custody others | 47 | 1,826 | 1,814 | 59 |
| Total liabilities | $ 235 | $ 4,002 | 4,110 | $ 127 |
| **DEBT COLLECTION:** | | | | |
| **ASSETS** | | | | |
| Cash/cash equivalents | $ 114 | $ 4,560 | 4,512 | $ 162 |
| Receivables (net) | 20 | 27,442 | 27,462 | - |
| Total assets | $ 134 | $ 32,002 | 31,974 | $ 162 |
| **LIABILITIES** | | | | |
| Accounts Payable | $ 3 | $ 5,577 | 5,578 | $ 2 |
| Amounts held in custody others | 131 | 3,827 | 3,798 | 160 |
| Total liabilities | $ 134 | $ 9,404 | 9,376 | $ 162 |

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**
**AGENCY FUNDS**
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
*(amounts expressed in thousands)*

| FUND | BALANCE JUNE 30, 2009 | ADDITIONS | DEDUCTIONS | BALANCE JUNE 30, 2010 |
|---|---|---|---|---|
| **MILK PASSTHROUGH:** | | | | |
| **ASSETS** | | | | |
| Cash/cash equivalents | $ 61 | $ 999 | 999 | $ 61 |
| Total assets | $ 61 | $ 999 | 999 | $ 61 |
| **LIABILITIES** | | | | |
| Accounts Payable | $ 50 | $ 988 | 999 | $ 39 |
| Amounts held custody others | 11 | 999 | 988 | 22 |
| Total liabilities | $ 61 | $ 1,987 | 1,987 | $ 61 |
| **OPEB STATE:** | | | | |
| **ASSETS** | | | | |
| Cash/cash equivalents | $ - | $ 29,357 | 29,357 | $ - |
| Other assets | - | 78,190 | 78,190 | - |
| Total assets | $ - | $ 107,547 | 107,547 | $ - |
| **OPEB MUS:** | | | | |
| **ASSETS** | | | | |
| Cash/cash equivalents | $ - | $ 41,219 | 41,219 | $ - |
| Other assets | - | 41,219 | 41,219 | - |
| Total assets | $ - | $ 82,438 | 82,438 | $ - |
| **TOTAL - ALL AGENCY FUNDS** | | | | |
| **ASSETS** | | | | |
| Cash/cash equivalents | $ 11,211 | $ 25,208,007 | 25,194,030 | $ 25,188 |
| Due from other governments | 112 | - | 112 | - |
| Receivables (net) | 403 | 27,578 | 27,588 | 393 |
| Investments | 29 | 15,041 | 15,053 | 17 |
| Securities lending collateral | 23 | 33 | 45 | 11 |
| Other assets | 13,299 | 120,121 | 121,204 | 12,216 |
| Total assets | $ 25,077 | $ 25,370,780 | 25,358,032 | $ 37,825 |
| **LIABILITIES** | | | | |
| Accounts Payable | $ 1,120 | $ 84,787 | 85,248 | $ 659 |
| Amts held custody others | 23,934 | 960,301 | 947,080 | 37,155 |
| Securities lending liability | 23 | 33 | 45 | 11 |
| Total liabilities | $ 25,077 | $ 1,045,121 | 1,032,373 | $ 37,825 |

# STATISTICAL SECTION

The Statistical Section provides additional historical context and detail to aid in using the information in the financial statements, notes to the financial statements, and required supplementary information of the primary government of the State of Montana in understanding and assessing the State's overall financial health.

## Financial Trends Information

These schedules present trend information to help understand how the State's financial performance and fiscal health have changed over time.

Schedule A-1 – Net Assets by Component .......... 230
Schedule A-2 – Change in Net Assets .......... 232
Schedule A-3 – Fund Balances, Governmental Funds .......... 236
Schedule A-4 – Changes in Fund Balances, Governmental Funds .......... 238

## Revenue Capacity Information

These schedules contain information to help understand the State's capacity to raise revenues and the sources of those revenues.

Schedule B-1 – Personal Income by Industry .......... 240
Schedule B-2 – Personal Income Tax Rates .......... 241
Schedule B-3 – Personal Income Tax Filers and Liability by Income Level .......... 242

## Debt Capacity Information

These schedules present information to help understand and assess the State's level of outstanding debt and the State's ability to issue additional debt in the future.

Schedule C-1 – Ratios of Outstanding Debt by Type .......... 243
Schedule C-2 – Pledged Revenue Coverage .......... 245
Schedule C-3 – Ratios of General Bonded Debt Outstanding .......... 250

## Demographic and Economic Information

These schedules contain demographic and economic indicators to help understand the environment within which the State's financial activities take place.

Schedule D-1 – Demographic and Economic Statistics .......... 251
Schedule D-2 – Principal Employers .......... 252

## Operating Information

These schedules provide operating data to help understand how the information in the State's financial report relates to the services it provides and the activities it performs.

Schedule E-1 – Full-Time Equivalent State Employees by Function/Program .......... 254
Schedule E-2 – Operating Indicators by Function/Program .......... 256
Schedule E-3 – Capital Asset Statistics by Function/Program .......... 260

Sources: Unless otherwise noted, the information in the following schedules is derived from the State of Montana Comprehensive Annual Financial Report.

**SCHEDULE A-1 – NET ASSETS BY COMPONENT**
Last Nine Fiscal Years
*(accrual basis of accounting, amounts expressed in thousands)*

| | Fiscal 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|
| Governmental activities | | | | | | | | | |
| Invested in capital assets, net of related debt | $ 814,026 | $2,049,489 | $2,250,177 | $2,528,808 | $2,842,708 | $3,115,260 | $3,262,932 | $3,526,294 | $3,874,920 |
| Restricted | 1,742,193 | 1,817,193 | 1,858,088 | 2,159,185 | 2,202,592 | 2,347,395 | 2,617,435 | 2,329,850 | 1,983,143 |
| Unrestricted | 140,044 | 177,161 | 222,829 | 404,724 | 647,182 | 675,752 | 595,019 | 589,815 | 1,083,674 |
| Total governmental activities net assets | $2,696,263 | $4,043,843 | $4,331,094 | $5,092,717 | $5,692,482 | $6,138,407 | $6,475,386 | $6,445,959 | $6,941,737 |
| Business-type activities | | | | | | | | | |
| Invested in capital assets, net of related debt | $ 12,496 | $ 9,084 | $ 8,925 | $ 9,670 | $ 8,703 | $ 8,698 | $ 8,733 | $ 12,539 | $ 14,534 |
| Restricted | 203,710 | 202,268 | 212,473 | 240,514 | 269,687 | 314,722 | 337,036 | 255,493 | 159,335 |
| Unrestricted | 17,223 | 19,251 | 14,909 | 16,672 | 18,539 | 11,761 | 11,234 | 6,996 | 20,851 |
| Total business-type activities net assets | $ 233,429 | $ 230,603 | $ 236,307 | $ 266,856 | $ 296,929 | $ 335,181 | $ 357,003 | $ 275,028 | $ 194,720 |
| Primary government | | | | | | | | | |
| Invested in capital assets, net of related debt | $ 826,522 | $2,058,573 | $2,259,102 | $2,538,478 | $2,851,411 | $3,123,958 | $3,271,665 | $3,538,833 | $3,889,454 |
| Restricted | 1,945,903 | 2,019,461 | 2,070,561 | 2,399,699 | 2,472,279 | 2,662,117 | 2,594,471 | 2,585,343 | 2,142,478 |
| Unrestricted | 157,267 | 196,412 | 237,738 | 421,396 | 665,721 | 687,513 | 606,253 | 596,811 | 1,104,525 |
| Total primary government net assets | $2,929,692 | $4,274,446 | $4,567,401 | $5,359,573 | $5,989,411 | $6,473,588 | $6,832,389 | $6,720,987 | $7,136,457 |

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**SCHEDULE A-2 – CHANGE IN NET ASSETS**
Last Nine Fiscal Years
*(accrual basis of accounting, amounts expressed in thousands)*

| | Fiscal Year | | | | |
|---|---|---|---|---|---|
| **Expenses** | **2002** | **2003** | **2004** | **2005** | **2006** |
| Governmental activities: | | | | | |
| General government | $ 248,089 | $ 280,740 | $ 285,781 | $ 305,819 | $ 525,981 |
| Public safety/corrections | 205,983 | 194,885 | 227,786 | 258,610 | 245,810 |
| Transportation | 169,282 | 286,181 | 400,034 | 281,074 | 216,942 |
| Health/social services | 1,086,012 | 1,023,893 | 1,109,045 | 1,182,281 | 1,270,056 |
| Education/cultural | 845,324 | 899,575 | 874,846 | 900,542 | 976,046 |
| Resource/recreation/environment | 108,642 | 234,848 | 258,057 | 197,539 | 142,460 |
| Economic development/assistance | 164,761 | 169,270 | 144,687 | 144,777 | 150,449 |
| Interest on long-term debt | 22,763 | 19,910 | 15,088 | 14,375 | 19,569 |
| Total governmental activities expenses | 2,850,856 | 3,109,302 | 3,315,324 | 3,285,017 | 3,547,313 |
| Business-type activities: | | | | | |
| Unemployment Insurance | 83,944 | 92,639 | 93,882 | 75,291 | 72,661 |
| Liquor Stores | 38,074 | 40,097 | 42,827 | 45,503 | 50,514 |
| State Lottery | 26,585 | 27,320 | 28,669 | 27,681 | 31,020 |
| Economic Development Bonds | 3,251 | 2,426 | 2,197 | 2,630 | 3,441 |
| Hail Insurance | 2,045 | 2,029 | 1,949 | 3,153 | 4,632 |
| General Government Services | 11,134 | 14,177 | 48,395 | 50,329 | 51,017 |
| Prison Funds | 5,444 | 4,515 | 4,244 | 5,268 | 5,356 |
| MUS Group Insurance | 34,594 | 35,906 | 39,690 | 40,524 | 52,139 |
| MUS Workers Compensation | - | - | 2,552 | 2,842 | 2,978 |
| Total business-type activities expenses | 205,071 | 219,109 | 264,405 | 253,221 | 273,758 |
| Total primary government expenses | $ 3,055,927 | $ 3,328,411 | $ 3,579,729 | $ 3,538,238 | $ 3,821,071 |
| **Program Revenues** | | | | | |
| Governmental activities: | | | | | |
| Charges for services: | | | | | |
| General government | $ 38,368 | $ 42,849 | $ 59,384 | $ 49,637 | $ 59,166 |
| Public safety/corrections | 122,840 | 124,901 | 159,397 | 146,746 | 150,787 |
| Transportation | 32,269 | 61,316 | 33,943 | 38,101 | 31,766 |
| Health/social services | 40,847 | 31,074 | 32,983 | 31,467 | 30,022 |
| Education/cultural | 69,242 | 69,228 | 28,922 | 30,499 | 107,096 |
| Resource/recreation/environment | 45,787 | 67,380 | 137,714 | 121,539 | 77,064 |
| Economic development/assistance | 15,261 | 17,835 | 22,102 | 25,995 | 31,866 |
| Operating grants and contributions | 1,080,374 | 1,170,703 | 1,271,515 | 1,391,026 | 1,371,109 |
| Capital grants and contributions | 280,489 | 308,021 | 290,045 | 319,434 | 305,345 |
| Total governmental activities program revenues | 1,725,477 | 1,893,757 | 2,034,005 | 2,154,444 | 2,164,221 |
| Business-type activities: | | | | | |
| Charges for services: | | | | | |
| Unemployment Insurance | 59,771 | 66,493 | 67,873 | 72,866 | 76,754 |
| Liquor Stores | 45,630 | 46,955 | 49,521 | 52,081 | 58,975 |
| State Lottery | 33,670 | 34,696 | 36,740 | 33,815 | 39,923 |
| Economic Development Bonds | 13 | 19 | 8 | 5 | 7 |
| Hail Insurance | 301 | 2,568 | 3,748 | 7,404 | 3,057 |
| General Government Services | 11,202 | 12,658 | 13,197 | 14,244 | 15,589 |
| Prison Funds | 5,583 | 4,371 | 5,140 | 5,233 | 5,717 |
| MUS Group Insurance | 33,601 | 38,743 | 42,252 | 47,739 | 54,164 |
| MUS Workers Compensation | - | - | 2,424 | 2,978 | 3,543 |
| Operating grants and contributions | 29,335 | 10,442 | 55,487 | 58,433 | 58,051 |
| Capital grants and contributions | 602 | 510 | 177 | 159 | 378 |
| Total business-type activities program revenues | 219,708 | 217,185 | 493,752 | 294,957 | 316,158 |
| Total primary government program revenues | $ 1,945,257 | $ 2,110,942 | $ 2,527,757 | $ 2,449,401 | $ 2,480,379 |

| 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|
| $ 450,646 | $ 634,984 | $ 549,847 | $ 774,881 |
| 293,193 | 322,769 | 408,239 | 342,803 |
| 197,510 | 488,450 | 438,649 | 320,085 |
| 1,266,098 | 1,380,629 | 1,529,104 | 1,677,261 |
| 1,065,504 | 1,144,637 | 1,137,772 | 1,179,788 |
| 256,751 | 258,058 | 363,179 | 318,300 |
| 152,154 | 152,456 | 170,027 | - |
| 19,418 | 18,344 | 18,721 | 17,692 |
| 3,701,274 | 4,400,327 | 4,615,538 | 4,630,810 |
| 72,378 | 90,269 | 235,949 | 354,793 |
| 55,521 | 59,227 | 61,446 | 61,569 |
| 30,416 | 32,984 | 33,787 | 36,365 |
| 4,167 | 4,552 | 3,523 | 2,167 |
| 4,663 | 11,064 | 4,087 | 6,238 |
| 53,851 | 56,697 | 60,157 | 62,797 |
| 6,487 | 6,670 | 10,681 | 6,463 |
| 58,532 | 59,334 | 55,023 | 72,606 |
| 2,647 | 3,109 | 3,675 | 3,900 |
| 288,662 | 323,906 | 468,328 | 606,898 |
| $ 3,989,936 | $ 4,724,233 | $5,083,866 | $5,237,708 |
| | | | |
| $ 61,713 | $ 83,720 | $ 68,982 | $ 127,163 |
| 153,577 | 149,534 | 144,748 | 147,839 |
| 34,963 | 42,348 | 37,204 | 26,531 |
| 30,547 | 38,137 | 35,554 | 43,338 |
| 96,903 | 150,906 | 113,433 | 34,309 |
| 80,320 | 80,933 | 39,929 | 232,861 |
| 38,441 | 38,520 | 43,182 | - |
| 1,395,324 | 1,493,944 | 1,635,769 | 1,985,977 |
| 325,352 | 380,856 | 467,611 | 510,996 |
| 2,217,140 | 2,458,898 | 2,586,412 | 3,109,014 |
| 83,661 | 85,801 | 75,591 | 89,501 |
| 63,943 | 69,242 | 67,242 | 68,032 |
| 41,567 | 43,826 | 43,841 | 46,865 |
| 22 | 33 | 26 | 22 |
| 6,042 | 7,730 | 6,859 | 6,915 |
| 18,176 | 19,844 | 21,548 | 22,601 |
| 5,600 | 7,150 | 6,620 | 6,304 |
| 57,159 | 62,666 | 52,147 | 64,756 |
| 4,047 | 4,660 | 5,003 | 4,979 |
| 64,691 | 63,524 | 118,058 | 226,049 |
| 171 | 540 | 1,360 | 3,174 |
| 345,079 | 365,016 | 398,295 | 539,198 |
| $ 2,562,219 | $ 2,823,914 | $2,984,707 | $3,648,211 |

**SCHEDULE A-2 – CHANGE IN NET ASSETS - Continued**
Last Nine Fiscal Years
*(accrual basis of accounting, amounts expressed in thousands)*

| | Fiscal Year | | | | |
|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006 |
| Net (expense)/revenue | | | | | |
| Governmental activities | $(1,125,379) | $(1,215,545) | $(1,281,319) | $(1,130,573) | $(1,383,092) |
| Business-type activities | 14,637 | (1,924) | 229,347 | 41,736 | 42,400 |
| Total primary government net expense | $(1,110,742) | $(1,217,469) | $(1,051,972) | $(1,088,837) | $(1,340,692) |
| **General Revenues and Other Changes in Net Assets** | | | | | |
| Governmental activities: | | | | | |
| Taxes | | | | | |
| Property | $ 167,488 | $ 170,803 | $ 164,505 | $ 186,229 | $ 194,617 |
| Fuel | 191,248 | 190,030 | 198,332 | 190,897 | 212,276 |
| Natural resource | 96,336 | 111,776 | 131,053 | 191,723 | 260,382 |
| Individual income | 525,647 | 540,926 | 619,043 | 729,459 | 760,981 |
| Corporate income | 69,176 | 44,394 | 69,685 | 101,834 | 153,574 |
| Other | 188,256 | 201,929 | 253,953 | 257,526 | 289,978 |
| Unrestricted grants and contributions | - | - | - | - | 4,158 |
| Settlements | 58,549 | 35,754 | 25,181 | 28,313 | 28,248 |
| Unrestricted investment earnings | 151,716 | 206,970 | 32,734 | 52,792 | 36,188 |
| Gain on sale of capital assets | (7,532) | 311 | 204 | 34 | 53 |
| Miscellaneous | 4,460 | 24,045 | 6,412 | 4,358 | 4,741 |
| Transfers | 26,756 | 32,366 | 30,812 | 29,871 | 34,802 |
| Total governmental activities | 1,472,100 | 1,559,844 | 1,531,914 | 1,773,036 | 1,979,998 |
| Business-type activities: | | | | | |
| Taxes | | | | | |
| Other | 12,907 | 13,650 | 14,621 | 15,624 | 17,317 |
| Settlements | - | - | - | - | - |
| Unrestricted investment earnings | 16,382 | 16,028 | 319 | 190 | 1,016 |
| Gain on sale of capital assets | (3) | - | - | - | - |
| Miscellaneous | 1,040 | 5,750 | 9,956 | 2,945 | 4,146 |
| Transfers | (26,756) | (32,366) | (30,812) | (29,871) | (34,802) |
| Total business-type activities | 3,570 | 3,062 | (5,916) | (11,112) | (12,323) |
| Total primary government | 1,475,670 | 1,562,906 | 1,525,998 | 1,761,924 | 1,967,675 |
| **Change in Net Assets** | | | | | |
| Governmental activities | 346,721 | 344,299 | 250,595 | 642,463 | 596,906 |
| Business-type activities | 18,207 | 1,138 | 223,431 | 30,624 | 30,077 |
| Total primary government | $ 364,928 | $ 345,437 | $ 474,026 | $ 673,087 | $ 626,983 |

*Source: Statewide Accounting, Budgeting, and Human Resource System*

*Note: The State did not begin reporting government-wide statements until it implemented GASB Statement 34 in fiscal year 2002.*

| 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|
| $(1,484,134) | $(1,941,429) | $(2,029,126) | $(1,521,795) |
| 56,417 | 41,110 | (70,033) | (69,700) |
| $(1,427,717) | $(1,900,319) | $(2,099,159) | $(1,591,495) |
| | | | |
| $ 206,527 | $ 214,868 | $ 228,368 | $ 235,287 |
| 210,573 | 205,758 | 191,061 | 204,373 |
| 276,793 | 407,007 | 307,032 | 275,313 |
| 819,473 | 862,273 | 806,908 | 709,699 |
| 183,913 | 161,118 | 168,053 | 89,033 |
| 309,232 | 320,398 | 315,810 | 303,859 |
| 3,911 | 28 | 167 | 461 |
| 27,853 | 38,760 | 155,127 | 77,927 |
| 78,032 | 72,203 | 42,556 | 172,748 |
| - | - | - | - |
| 10,823 | 6,351 | 6,141 | 3,244 |
| 3,050 | 5,810 | 116,865 | 4,247 |
| 41,080 | 43,010 | 42,863 | 42,486 |
| 2,171,260 | 2,337,584 | 2,380,951 | 2,118,677 |
| | | | |
| 19,046 | 20,340 | 24,821 | 25,017 |
| 10 | - | - | - |
| 569 | 406 | 142 | 244 |
| - | - | - | 1 |
| 1,953 | 2,662 | 2,484 | 4,377 |
| (41,080) | (43,010) | (42,863) | (42,486) |
| (19,502) | (19,602) | (15,416) | (12,847) |
| 2,151,758 | 2,317,982 | 2,365,535 | 2,105,830 |
| | | | |
| 687,126 | 396,155 | 351,825 | 596,881 |
| 36,915 | 21,508 | (85,449) | (80,547) |
| $ 724,041 | $ 417,663 | $ 266,376 | $ 516,334 |

Last Nine Fiscal Years

*(modified accrual basis of accounting, amounts expressed in thousands)*

| | Fiscal Year | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** |
| General Fund | | | | | | | | |
| Reserved | $ 7,927 | $ 8,056 | $ 8,903 | $ 10,118 | $ 11,533 | $ 20,498 | $ 28,221 | $ 25,991 |
| Unreserved | 81,316 | 43,065 | 132,873 | 289,675 | 408,580 | 549,158 | 433,580 | 392,526 |
| Total general fund | $ 89,243 | $ 51,121 | $ 141,776 | $ 299,793 | $ 420,113 | $ 569,656 | $ 461,801 | $ 418,517 |
| All other governmental funds | | | | | | | | |
| Reserved | $1,512,978 | $1,650,265 | $2,199,647 | $2,421,876 | $2,431,304 | $2,529,131 | $2,766,497 | $3,016,151 |
| Unreserved, reported in: | | | | | | | | |
| Special revenue funds | 437,188 | 501,679 | (83,891) | (51,010) | (53,266) | (48,292) | (47,864) | (30,881) |
| Debt service funds | 21,985 | 10,731 | 7,003 | 5,456 | 6,783 | 5,920 | 1,083 | (4,505) |
| Capital project funds | 13,487 | 16,935 | 10,661 | 8,721 | 47,272 | 37,735 | 87,895 | 124,205 |
| Total all other governmental funds | $1,985,638 | $2,179,610 | $2,133,420 | $2,385,043 | $2,432,093 | $2,524,494 | $2,807,611 | $3,104,970 |

*Source: Statewide Accounting, Budgeting, and Human Resource System*

*Note: Due to changes in the State's fund structure initiated when GASB Statement 34 was implemented, the fund balance information is available beginning in fiscal year 2002.*

*Note: Due to GASB Statement 54 a new table is included below for 2010.*

**SCHEDULE A-3 – FUND BALANCES, GOVERNMENTAL FUNDS**
Last Nine Fiscal Years
*(modified accrual basis of accounting, amounts expressed in thousands)*

| | 2010 |
|---|---|
| Nonspendable | |
| Inventory | $ 27,017 |
| Permanent fund Principle | 1,143,435 |
| Long-term notes/receivable | 96 |
| Prepaid Exp | 1,361 |
| Total Nonspendable | $1,171,910 |
| Restricted: | |
| General Government | 13,785 |
| Transportation | 102,520 |
| Health and Human Services | 22,367 |
| Natural Resources | 438,411 |
| Public Safety | 317,294 |
| Education | 24,644 |
| Total Restricted | $919,021 |
| Committed | |
| General Government | 551,394 |
| Transportation | 6,403 |
| Health and Human Services | 65,050 |
| Natural Resources | 601,410 |
| Public Safety | 39,772 |
| Education | 1,540 |
| Total Committed | $1,255,569 |
| Assigned | |
| General Government | 33,427 |
| Health and Human Services | 148 |
| Natural Resources | 418 |
| Public Safety | 2,949 |
| Education | 138 |
| FY 2011 Appropriation | 70,270 |
| Encumbrances | 11,986 |
| Total Assigned | $119,336 |
| Unassigned | 212,183 |
| Total Fund Balances | $3,688,019 |

**SCHEDULE A-4 – CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS**
Last Nine Fiscal Years
*(modified accrual basis of accounting, amounts expressed in thousands)*

| | Fiscal Year | | | | |
|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006 |
| **Revenues** | | | | | |
| Licenses/permits | $ 202,490 | $ 210,611 | $ 240,612 | $ 245,244 | $ 259,073 |
| Taxes | 1,229,613 | 1,250,187 | 1,416,392 | 1,627,858 | 1,880,838 |
| Charges for services/fines/forfeits/settlements | 172,326 | 157,937 | 200,590 | 145,235 | 162,520 |
| Investment earnings | 145,984 | 204,406 | 49,363 | 143,937 | 62,977 |
| Sale of documents/merchandise/property | 15,571 | 13,104 | 31,687 | 22,655 | 21,412 |
| Rentals/leases/royalties | 24,438 | 28,324 | 22,868 | 43,723 | 63,318 |
| Contributions/Premiums | | | | | |
| Grants/contracts/donations | 20,864 | 24,560 | 27,984 | 27,984 | 25,987 |
| Federal | 1,342,612 | 1,488,048 | 1,518,634 | 1,583,989 | 1,612,717 |
| Federal Indirect cost Recoveries | | | | | |
| Other revenues | 15,011 | 32,927 | 32,042 | 17,253 | 20,989 |
| Total revenues | 3,168,909 | 3,410,100 | 3,514,220 | 3,857,878 | 4,109,831 |
| **Expenditures** | | | | | |
| General government | 228,772 | 239,707 | 252,486 | 293,808 | 466,886 |
| Public safety/corrections | 189,507 | 189,302 | 208,593 | 238,929 | 254,381 |
| Transportation | 440,172 | 510,866 | 529,555 | 523,022 | 559,695 |
| Health/social services | 1,079,303 | 1,018,333 | 1,114,064 | 1,186,462 | 1,274,947 |
| Education/cultural | 861,034 | 894,591 | 898,988 | 905,150 | 976,446 |
| Resource/recreation/environment | 111,388 | 184,359 | 250,590 | 206,903 | 204,413 |
| Economic development/assistance | 163,895 | 168,007 | 144,381 | 146,306 | 151,020 |
| Debt service: | | | | | |
| Principal retirement | 36,758 | 39,002 | 25,217 | 27,203 | 32,546 |
| Interest/fiscal charges | 19,780 | 18,166 | 14,812 | 14,171 | 20,745 |
| Capital outlay | 65,056 | 63,073 | 60,310 | 70,851 | 69,505 |
| Securities lending | 3,936 | 1,734 | 1,784 | 4,905 | 7,663 |
| Total expenditures | 3,199,601 | 3,327,140 | 3,500,780 | 3,617,710 | 4,018,247 |
| Excess of revenue over (under) expenditures | (30,692) | 82,960 | 13,440 | 240,168 | 91,584 |
| **Other financing sources (uses)** | | | | | |
| Loan proceeds | 2,132 | 2,235 | - | - | - |
| Bonds issued | 1,785 | 31,360 | 5,790 | 135,380 | 37,050 |
| Refunding bonds issued | 33,605 | 44,385 | 20,235 | 30,070 | - |
| Bond premium | (139) | 1,655 | 478 | 8,106 | 2,178 |
| Payment to refunding bond escrow agent | (34,756) | (44,408) | (20,214) | (31,018) | - |
| Inception of lease/installment contract | 482 | 321 | 1,297 | 517 | 876 |
| Insurance proceeds | - | - | - | - | 327 |
| General capital asset sale proceeds | 310 | 312 | 270 | 169 | 164 |
| Transfers in | 321,362 | 231,890 | 239,638 | 273,651 | 292,130 |
| Transfers out | (296,729) | 200,605 | (210,166) | (244,868) | (259,247) |
| Total other financing sources (uses) | 28,052 | 67,145 | 37,328 | 172,007 | 73,478 |
| Net change in fund balances | $ (2,640) | $ 150,105 | $ 50,678 | $ 412,175 | $ 165,062 |
| Debt service as a percentage of noncapital expenditures | 2.0% | 1.8% | 1.2% | 1.3% | 1.6% |

*Source:* *Statewide Accounting, Budgeting, and Human Resource System*
*Note:* *Due to changes in the State's fund structure initiated when GASB Statement 34 was implemented, the fund balance information is available beginning in fiscal year 2002.*

| 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|
| $ 285,890 | $ 283,755 | $ 283,423 | $ 283,658 |
| 2,009,620 | 2,162,928 | 2,005,327 | 1,809,426 |
| 160,571 | 188,518 | 255,068 | 238,758 |
| 171,047 | 165,165 | 114,857 | 232,668 |
| 20,460 | 19,711 | 15,271 | 17,500 |
| 51,442 | 65,176 | 73,080 | 143,714 |
| | | | 19,724 |
| 25,362 | 27,825 | 28,919 | 27,324 |
| 1,586,206 | 1,713,478 | 1,953,376 | 2,271,216 |
| | | | 112,918 |
| 17,280 | 30,952 | 144,890 | 4,520 |
| 4,327,878 | 4,657,508 | 4,874,211 | 5,163,712 |
| | | | |
| 401,331 | 545,661 | 428,723 | 666,191 |
| 284,777 | 311,094 | 335,877 | 338,776 |
| 575,157 | 360,383 | 311,838 | 197,197 |
| 1,267,854 | 1,372,335 | 1,526,287 | 1,675,253 |
| 1,050,239 | 1,137,548 | 1,136,056 | 1,181,591 |
| 247,090 | 300,207 | 238,834 | 288,913 |
| 152,442 | 149,057 | 168,778 | - |
| | | | |
| 33,103 | 33,767 | 34,199 | 31,682 |
| 19,080 | 18,931 | 19,079 | 18,213 |
| 95,834 | 351,111 | 464,378 | 650,589 |
| 5,261 | 7,244 | 2,917 | 873 |
| 4,132,168 | 4,587,338 | 4,666,966 | 5,049,278 |
| 195,710 | 70,170 | 207,245 | 114,437 |
| | | | |
| - | - | - | 3,800 |
| - | 59,490 | - | - |
| 16,740 | - | - | 28,270 |
| 946 | 828 | - | 1,294 |
| (17,504) | - | - | (29,149) |
| 49 | 874 | 615 | 171 |
| 115 | 1,681 | 886 | 670 |
| 10,946 | 6,497 | 5,960 | 3,614 |
| 306,867 | 413,286 | 391,661 | 491,045 |
| (269,595) | (373,727) | (350,135) | (450,686) |
| 48,564 | 108,929 | 48,987 | 49,030 |
| $ 244,274 | $ 179,099 | $ 256,232 | $ 163,467 |
| 1.4% | 1.3% | 1.2% | 1.1% |

Last Ten Calendar Years
*(amounts expressed in thousands)*

| | Calendar Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| Farm Earnings | $ 256,184 | $ 341,929 | $ 187,285 | $ 336,736 | $ 544,076 | $ 598,945 | $ 190,096 | $ 408,523 | $ 468,182 | $ 310,053 |
| Agricultural/forestry, fishing, | 184,627 | 178,029 | 181,184 | 199,008 | 201,726 | 198,427 | 210,748 | 205,861 | 193,708 | 186,402 |
| Mining | 468,252 | 428,493 | 407,463 | 424,207 | 527,824 | 601,174 | 735,437 | 735,100 | 897,521 | 772,277 |
| Construction/utilities | 1,153,519 | 1,319,781 | 1,337,890 | 1,503,342 | 1,649,645 | 1,850,637 | 2,070,597 | 2,186,771 | 2,007,944 | 1677,216 |
| Manufacturing | 899,759 | 939,227 | 930,340 | 932,165 | 959,263 | 1,020,820 | 1,102,085 | 1,139,506 | 1,152,181 | 1,059,780 |
| Transportation and public | 947,804 | 963,361 | 956,872 | 990,495 | 1,058,487 | 1,121,137 | 1,228,453 | 1,231,036 | 1,269,832 | 1,250,836 |
| Wholesale trade | 625,730 | 642,182 | 670,340 | 702,274 | 769,190 | 818,971 | 879,070 | 964,006 | 985,176 | 938,306 |
| Retail trade | 1,424,933 | 1,480,328 | 1,559,887 | 1,617,823 | 1,679,641 | 1,745,539 | 1,843,169 | 1,959,131 | 1,935,405 | 1,843,250 |
| Finance, insurance, and real | 900,752 | 1,362,462 | 1,282,357 | 1,244,805 | 1,429,520 | 1,518,863 | 1,544,182 | 1,433,899 | 1,1,445,414 | 1,430,985 |
| Services | 4,649,459 | 5,070,660 | 5,404,330 | 5,670,453 | 6,077,871 | 6,501,206 | 7,088,480 | 7,533,395 | 7,915,541 | 8,005,007 |
| Federal, civilian | 842,657 | 852,298 | 913,334 | 974,085 | 1,047,116 | 1,085,934 | 1,134,414 | 1,180,607 | 1,207,987 | 1,268,108 |
| Military | 261,551 | 279,992 | 334,884 | 393,289 | 421,133 | 452,182 | 456,908 | 465,490 | 489,616 | 515,593 |
| State and local government | 2,186,874 | 2,322,581 | 2,415,951 | 2,594,624 | 2,669,870 | 2,817,801 | 2,973,386 | 3,169,949 | 3,364,342 | 3,494,129 |
| Other (1) | 6,398,152 | 6,749,946 | 6,787,966 | 7,168,740 | 7,459,502 | 7,847,207 | 8,989,644 | 9,834,100 | 10,778,049 | 11,171,289 |
| Total personal income | $21,200,253 | $22,931,269 | $23,370,083 | $24,752,046 | $26,494,864 | $28,178,843 | $30,446,669 | $32,475,467 | $33,515,577 | $48,637,193 |
| Average effective rate (2) | 2.4% | 2.4% | 2.2% | 2.2% | 2.3% | 2.5% | 2.5% | 2.5% | 2.6% | 1.4% |

*Sources: Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce*
*Montana Department of Revenue*

*Notes: Numbers include revised state personal income estimates for 1969-2008 released on October 16, 2009.*

*(1) Includes dividends, interest, rental income, residence adjustment, government transfers to individuals, and deductions for social insurance*
*(2) The total direct rate for personal income is not available. Average effective rate equals personal income tax revenue (Schedule B-2) divided by personal income.*

**SCHEDULE B-2 – PERSONAL INCOME TAX RATES**
Last Ten Calendar Years
*(amounts expressed in thousands)*

| | Calendar Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2000** | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** |
| Personal income tax revenue (1) | $516,262 | $556,015 | $517,568 | $535,831 | $605,348 | $712,281 | $768,912 | $827,095 | $866,638 | $687,744 |
| Personal income | $21,200,253 | $22,931,386 | $23,370,279 | $24,752,242 | $26,495,404 | $28,179,101 | $30,447,102 | $32,447,374 | $34,110,898 | $33,923,301 |
| Average effective rate (2) | 2.4% | 2.4% | 2.2% | 2.2% | 2.3% | 2.5% | 2.5% | 2.5% | 2.6% | 2.0% |

| | **Tax Rates on the Portion of Taxable Income in Ranges** (3) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Calendar Year 2000 | | | | | | | | | | |
| Tax Rate | 2.0% | 3.0% | 4.0% | 5.0% | 6.0% | 7.0% | 8.0% | 9.0% | 10.0% | 11.0% |
| Income Bracket | $0-2.1 | $2.1-4.2 | $4.2-8.3 | $8.3-12.5 | $12.5-16.7 | $16.7-20.8 | $20.8-29.2 | $29.2-41.7 | $41.7-73 | $73 + |
| Calendar Year 2001 | | | | | | | | | | |
| Tax Rate | 2.0% | 3.0% | 4.0% | 5.0% | 6.0% | 7.0% | 8.0% | 9.0% | 10.0% | 11.0% |
| Income Bracket | $0-2.2 | $2.2-4.3 | $4.3-8.6 | $8.6-12.9 | $12.9-17.2 | $17.2-21.5 | $21.5-30.2 | $30.2-43.1 | $43.1-75.4 | $75.4 + |
| Calendar Year 2002 | | | | | | | | | | |
| Tax Rate | 2.0% | 3.0% | 4.0% | 5.0% | 6.0% | 7.0% | 8.0% | 9.0% | 10.0% | 11.0% |
| Income Bracket | $0-2.2 | $2.2-4.4 | $4.4-8.7 | $8.7-13.1 | $13.1-17.4 | $17.4-21.8 | $21.8-30.5 | $30.5-43.5 | $43.5-76.2 | $76.2 + |
| Calendar Year 2003 | | | | | | | | | | |
| Tax Rate | 2.0% | 3.0% | 4.0% | 5.0% | 6.0% | 7.0% | 8.0% | 9.0% | 10.0% | 11.0% |
| Income Bracket | $0-2.2 | $2.2-4.4 | $4.4-8.9 | $8.9-13.3 | $13.3-17.8 | $17.8-22.2 | $22.2-31.1 | $31.1-44.5 | $44.5-77.8 | $77.8 + |
| Calendar Year 2004 | | | | | | | | | | |
| Tax Rate | 2.0% | 3.0% | 4.0% | 5.0% | 6.0% | 7.0% | 8.0% | 9.0% | 10.0% | 11.0% |
| Income Bracket | $0-2.3 | $2.3-4.6 | $4.6-9.2 | $9.2-13.8 | $13.8-18.4 | $18.4-22.9 | $22.9-32.1 | $32.1-45.9 | $45.9-80.3 | $80.3 + |
| Calendar Year 2005 | | | | | | | | | | |
| Tax Rate | 1.0% | 2.0% | 3.0% | 4.0% | 5.0% | 6.0% | 6.9% | 9.0% | 10.0% | 11.0% |
| Income Bracket | $0-2.3 | $2.3-4.1 | $4.1-6.2 | $6.2-8.4 | $8.4-10.8 | $10.8-13.9 | $13.9 + | $32.1-45.9 | $45.9-80.3 | $80.3 + |
| Calendar Year 2006 | | | | | | | | | | |
| Tax Rate | 1.0% | 2.0% | 3.0% | 4.0% | 5.0% | 6.0% | 6.9% | | | |
| Income Bracket | $0-2.4 | $2.4-4.3 | $4.3-6.5 | $6.5-8.8 | $8.8-11.3 | $11.3-14.5 | $14.5 + | | | |
| Calendar Year 2007 | | | | | | | | | | |
| Tax Rate | 1.0% | 2.0% | 3.0% | 4.0% | 5.0% | 6.0% | 6.9% | | | |
| Income Bracket | $0-2.5 | $2.5-4.4 | $4.4-6.6 | $6.6-9 | $9-11.6 | $11.6-14.9 | $14.9 + | | | |
| Calendar Year 2008 | | | | | | | | | | |
| Tax Rate | 1.0% | 2.0% | 3.0% | 4.0% | 5.0% | 6.0% | 6.9% | | | |
| Income Bracket | $0-2.6 | $2.6-4.6 | $4.6-7 | $7-9.5 | $9.5-12.2 | $12.2-15.6 | $15.6 + | | | |
| Calendar Year 2009 | | | | | | | | | | |
| Tax Rate | 1.0% | 2.0% | 3.0% | 4.0% | 5.0% | 6.0% | 6.9% | | | |
| Income Bracket | $0-2.6 | $2.6-4.5 | $4.6-6.9 | $6.9-9.3 | $9.3-12.0 | $12.2-15.4 | $15.4 + | | | |

*Sources: Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce; Montana Department of Revenue*
*Notes: Numbers include revised state personal income estimates for 1969-2008 released on October 16, 2009.*
*(1) Personal income tax revenue is reported on a fiscal year basis.*
*(2) Average effective rate equals personal income tax revenue divided by personal income.*
*(3) Amounts shown are for single and married filing separate returns. For all other filing status returns, double the income amounts in the columns.*

**SCHEDULE B-3 – PERSONAL INCOME TAX FILERS AND LIABILITY BY INCOME LEVEL**
Latest Completed Calendar Year and Five Years Ago

| | Calendar Year 2004 | | | | Calendar Year 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| Income Level | Number of Filers | Percentage of Total | Personal Income Tax Liability | Percentage of Total | Number of Filers | Percentage of Total | Personal Income Tax Liability | Percentage of Total |
| $9,999 and under | 92,756 | 23.28% | $ 2,485,845 | 0.40% | 87,774 | 20.27% | $ 1,077,616 | 0.16% |
| $10,000–$19,999 | 76,048 | 19.08 | 14,857,818 | 2.39 | 74,790 | 17.27 | 9,952,794 | 1.45 |
| $20,000–$44,999 | 111,285 | 27.93 | 80,831,959 | 13.02 | 120,169 | 27.75 | 78,246,912 | 11.38 |
| $45,000–$69,999 | 60,565 | 15.20 | 108,421,460 | 17.46 | 66,615 | 15.38 | 110,450,556 | 16.06 |
| $70,000–$109,999 | 38,520 | 9.67 | 128,776,357 | 20.74 | 53,729 | 12.41 | 163,973,105 | 23.84 |
| $110,000–$174,999 | 11,904 | 2.99 | 76,768,348 | 12.36 | 20,015 | 4.62 | 111,416,110 | 16.20 |
| $175,000–$499,999 | 6,211 | 1.56 | 96,176,122 | 15.65 | 8,538 | 1.97 | 109,251,558 | 15.89 |
| $500,000 and higher | 1,188 | .30 | 111,599,882 | 17.97 | 1,416 | 0.33 | 103,375,536 | 15.03 |
| Total | 398,477 | 100.00% | $620,917,791 | 100.00% | 433,046 | 100.00% | $687,744,188 | 100.00% |

*Source:* *Montana Department of Revenue*

*Note:* *Due to confidentiality issues, the names of the ten largest revenue payers are not available. The categories presented above are intended to provide alternate information regarding the sources of the State's revenue.*

Last Nine Fiscal Years
*(amounts expressed in thousands, except per capita amount, in dollars)*

| | Fiscal Year | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| Governmental activities | | | | | | | | | |
| General obligation bonds | $214,135 | $227,625 | $219,645 | $213,195 | $230,065 | $208,015 | $201,560 | $182,585 | $169,150 |
| Special revenue bonds | 100,337 | 85,070 | 76,368 | 192,775 | 181,770 | 171,080 | 204,365 | 189,970 | 176,570 |
| Notes payable | 23,203 | 21,299 | 12,807 | 12,439 | 12,099 | 11,755 | 11,411 | 11,065 | 10,716 |
| Lease/installment purchase payable | 3,652 | 3,286 | 2,332 | 2,705 | 2,459 | 1,057 | 1,421 | 2,680 | 2,440 |
| Total governmental activities | $341,327 | $337,280 | $311,152 | $421,114 | $426,393 | $391,907 | $418,757 | $386,300 | $358,876 |
| Business-type activities | | | | | | | | | |
| Bonds/notes payable | $ 13,914 | $ 10,376 | $ 7,942 | $ 5,168 | $ 3,936 | $ 3,107 | $ 1,853 | $ 1,180 | $370 |
| Total business-type activities | $ 13,914 | $ 10,376 | $ 7,942 | $ 5,168 | $ 3,936 | $ 3,107 | $ 1,853 | $ 1,180 | $370 |
| Total primary government | $355,421 | $347,656 | $319,094 | $426,282 | $430,329 | $395,014 | $420,610 | $387,480 | $359,246 |
| Debt as a percentage of personal income (1) | 1.5% | 1.5% | 1.3% | 1.6% | 1.5% | 1.3% | 1.3% | 1.2% | 1.1% |
| Amount of debt per capita (2) | $392 | $382 | $348 | $460 | $460 | $418 | $440 | $401 | $371 |

*Source:* *Statewide Accounting, Budgeting, and Human Resource System*

*Notes:* *The schedule information is available beginning in fiscal year 2002, the year GASB Statement 34 was implemented.*
*Details regarding the State's debt can be found in Note 11 of the financial statements.*

*(1) Debt as a percentage of personal income equals total debt divided by total personal income from Schedule B-1.*
*Used calendar year 2008 personal income for fiscal year 2009 debt percentage calculation.*
*Numbers revised for prior years due to personal income estimate revisions.*

*(2) Amount of debt per capita is calculated by dividing total debt by total population from Schedule D-1.*
*Numbers revised for prior years due to population estimate revisions.*

**SCHEDULE C-2 – PLEDGED REVENUE COVERAGE**
Last Ten Fiscal Years
*(amounts expressed in thousands)*

| | Fiscal Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Governmental Activities** | **2001** | **2002** | **2003** | **2003** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
| **Renewable Resource Program Bond** | | | | | | | | | | |
| Revenue | | | | | | | | | | |
| Loan repayment (principal and interest) | $3,317 | $3,933 | $3,464 | $3,464 | $ 4,247 | $3,036 | $2,576 | $1,549 | $3,157 | 1,710 |
| Northwestern Energy | 2,269 | 2,026 | 2,535 | 2,535 | 2,623 | 2,800 | 3,057 | 2,498 | 3,189 | 3,435 |
| STIP interest earnings | - | - | 59 | 59 | 100 | 176 | 460 | 329 | 96 | 19 |
| Debt service fund interest | - | - | 72 | 72 | 131 | 877 | 528 | 472 | 414 | 398 |
| Less: Operating expenses | - | - | - | - | - | - | - | - | - | |
| Net available revenue | $5,586 | $5,959 | $6,130 | $6,130 | $7,101 | $6,889 | $6,621 | $4,848 | $6,856 | $5,562 |
| Debt service | | | | | | | | | | |
| Principal | $2,910 | $3,205 | $4,040 | $4,040 | $10,515 | $4,630 | $3,095 | $3,485 | $3,725 | $2,380 |
| Interest | $3,030 | $1,714 | $1,975 | $1,975 | $ 1,719 | $1,476 | $1,357 | $1,253 | $1,093 | $979 |
| Coverage (1) | 0.9 | 1.2 | 1.0 | 1.0 | 0.6 | 1.1 | 1.5 | 1.0 | 1.4 | 1.7 |

| **Governmental Activities** | **2000** | **2001** | **2002** | **2003** | **2004** |
|---|---|---|---|---|---|
| **Transportation Refunding Bond** | | | | | |
| Revenue | | | | | |
| Motor fuel taxes | $ 178,938 | $ 174,299 | $ 180,600 | $ 181,758 | $ 188,754 |
| Gross vehicle weight fees | 33,935 | 31,555 | 26,425 | 25,339 | 26,308 |
| Other | 5,141 | 6,408 | 6,211 | 4,132 | 41,715 |
| Less: Operating expenses | (226,147) | (212,237) | (202,624) | (199,193) | (281,286) |
| Net available revenue | $ (8,133) | $ 25 | $ 10,612 | $ 12,036 | $ (24,509) |
| Debt service | | | | | |
| Principal | $ 11,355 | $ 11,885 | $ 12,470 | $ 13,095 | $ 3,705 |
| Interest | $ 2,315 | $,,,,,1,757 | $ 1,154 | $ 514 | $ 94 |
| Coverage (1) | (0.6) | 0.0 | 0.8 | 0.9 | (6.5) |

*(amounts expressed in thousands)*

| | Fiscal Year | | | | | |
|---|---|---|---|---|---|---|
| **Governmental Activities** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
| **US Highway 93 GARVEES Bond** (2) | | | | | | |
| Revenue | | | | | | |
| Federal Highway Administration | $ 160,060 | $ 278,109 | $ 300,808 | $ 345,583 | $ 381,604 | $ 464,400 |
| Less: Operating expenses | (159,846) | (266,232) | (288,930) | (333,705) | (365,624) | (448,419) |
| Net available revenue | $ 214 | $ 11,877 | $ 11,878 | $ 11,878 | $ 15,980 | $ 15,981 |
| Debt service | | | | | | |
| Principal | - | $ 4,960 | $ 6,130 | $ 6,375 | $ 9,070 | $ 9,340 |
| Interest | $ 214 | $ 6,917 | $ 5,747 | $ 5,503 | $ 6,910 | $ 6,641 |
| Coverage (1) | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |

| **Governmental Activities** | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
|---|---|---|---|---|---|---|---|---|---|---|
| **Middle Creek Dam Project Note Payable** | | | | | | | | | | |
| Revenue | | | | | | | | | | |
| Middle Creek Water Users Assoc loan payments | $104 | $104 | $119 | $99 | $99 | $82 | $96 | $89 | $83 | $90 |
| Less: Operating expenses | - | - | - | - | - | - | - | - | - | - |
| Net available revenue | $104 | $104 | $119 | $99 | $99 | $82 | $96 | $89 | $83 | $90 |
| Debt service | | | | | | | | | | |
| Principal | $ 35 | $ 37 | $ 38 | $39 | $41 | $42 | $44 | $46 | $48 | $50 |
| Interest | $ 69 | $ 67 | $ 81 | $60 | $59 | $40 | $52 | $43 | $35 | $40 |
| Coverage (1) | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |

Last Ten Fiscal Years
*(amounts expressed in thousands)*

| | Fiscal Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Governmental Activities** | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
| **Tongue River Dam Project Note Payable** | | | | | | | | | | |
| Revenue | | | | | | | | | | |
| Tongue River Water Users Assoc loan payments | $128 | $128 | $128 | $128 | $128 | $128 | $128 | $128 | $128 | $128 |
| Revenue from sale of electricity | 162 | 162 | 162 | 162 | 162 | 162 | 162 | 162 | 162 | 162 |
| Less: Operating expenses | - | - | - | - | - | - | - | - | - | |
| Net available revenue | $290 | $290 | $290 | $290 | $290 | $290 | $290 | $290 | $290 | $290 |
| Debt service | | | | | | | | | | |
| Principal | $290 | $290 | $290 | $290 | $290 | $290 | $290 | $290 | $290 | $290 |
| Interest | - | - | - | - | - | - | - | - | - | |
| Coverage (1) | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |

| | Fiscal Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Governmental Activities** | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
| **Water Conservation Note Payable** | | | | | | | | | | |
| **(Little Dry Project)** | | | | | | | | | | |
| Revenue | | | | | | | | | | |
| Little Dry Water Users Assoc loan payments | $3 | $3 | $3 | $3 | $3 | $3 | $3 | $3 | $3 | $3 |
| Less: Operating expenses | - | - | - | - | - | - | - | - | - | |
| Net available revenue | $3 | $3 | $3 | $3 | $3 | $3 | $3 | $3 | $3 | $3 |
| Debt service | | | | | | | | | | |
| Principal | $2 | $2 | $2 | $2 | $2 | $2 | $2 | $2 | $2 | $2 |
| Interest | $1 | $1 | $1 | $1 | $1 | $1 | $1 | $1 | $1 | $1 |
| Coverage (1) | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |

**SCHEDULE C-2 – PLEDGED REVENUE COVERAGE - Continued**
Last Ten Fiscal Years
*(amounts expressed in thousands)*

| | Fiscal Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Governmental Activities** | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
| **Water Conservation Note Payable** | | | | | | | | | | |
| **(Petrolia Project)** | | | | | | | | | | |
| Revenue | | | | | | | | | | |
| Petrolia Irrigation District loan payments | $3 | $3 | $3 | $3 | $3 | $3 | $3 | $3 | $3 | $3 |
| Less: Operating expenses | - | - | - | - | - | - | - | - | - | |
| Net available revenue | $3 | $3 | $3 | $3 | $3 | $3 | $3 | $3 | $3 | $3 |
| Debt service | | | | | | | | | | |
| Principal | $1 | $1 | $2 | $2 | $2 | $2 | $2 | $2 | $2 | $2 |
| Interest | $2 | $2 | $1 | $1 | $1 | $1 | $1 | $1 | $1 | $1 |
| Coverage (1) | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |

| | Fiscal Year | | | | | |
|---|---|---|---|---|---|---|
| **Business-type Activities** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
| **Economic Development Bonds** | | | | | | |
| **(Municipal Finance Consolidation Irrigation Dist)** | | | | | | |
| Revenue | | | | | | |
| Principal and interest repayments | $284 | $512 | $71 | $45 | $47 | $53 |
| Investment income | 5 | 3 | 5 | 3 | 1 | |
| Less: Operating expenses | - | - | - | - | - | - |
| Net available revenue | $289 | $515 | $76 | $48 | $48 | $53 |
| Debt service | | | | | | |
| Principal | $325 | $450 | $40 | $45 | $45 | $50 |
| Interest | $ 81 | $ 30 | $31 | $28 | $25 | $21 |
| Coverage (1) | 0.7 | 1.1 | 1.1 | 0.7 | 0.7 | 0.7 |

Last Ten Fiscal Years
*(amounts expressed in thousands)*

| **Business-type Activities** | **Fiscal Year 2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
|---|---|---|---|---|---|---|
| **Economic Development Bonds** | | | | | | |
| **(Conservation Reserve Enhancement Program)** | | | | | | |
| Revenue | | | | | | |
| Principal and interest repayments | $2,135 | $1,765 | $2,173 | $ 926 | $989 | $782 |
| Investment income | 4 | 9 | 16 | 10 | 1 | 0 |
| Less: Operating expenses | - | - | - | - | - | |
| Net available revenue | $2,139 | $1,774 | $2,189 | $ 936 | $990 | $782 |
| Debt service | | | | | | |
| Principal | $1,937 | $1,475 | $1,924 | $1,208 | $628 | $891 |
| Interest | $ 263 | $ 201 | $ 216 | $ 107 | $101 | $62 |
| Coverage (1) | 1.0 | 1.1 | 1.0 | 0.7 | 1.4 | .8 |

| **Business-type Activities** | **Fiscal Year 2005** |
|---|---|
| **Economic Development Bonds** | |
| **(Municipal Finance Consolidation Act Bonds)** | |
| Revenue | |
| Principal and interest repayments | $300 |
| Investment income | - |
| Less: Operating expenses | - |
| Net available revenue | $300 |
| Debt service | |
| Principal | $294 |
| Interest | $ 1 |
| Coverage (1) | 1.0 |

**SCHEDULE C-2 – PLEDGED REVENUE COVERAGE - Continued**
Last Ten Fiscal Years
*(amounts expressed in thousands)*

| | Fiscal Year | | | |
|---|---|---|---|---|
| **Business-type Activities** | **2004** | **2005** | **2006** | **2007** |
| **MUS Workers Compensation Bonds Payable** | | | | |
| Revenue | | | | |
| Workers compensation premiums | $ 2,424 | $ 2,978 | $ 3,543 | $ 4,047 |
| Less: Operating expenses | (2,489) | (2,785) | (2,932) | (2,614) |
| Net available revenue | $ (65) | $ 193 | $ 611 | $ 1,433 |
| Debt service | | | | |
| Principal | $ 395 | $ 395 | $ 410 | $ 430 |
| Interest | $ 48 | $ 46 | $ 34 | $ 22 |
| Coverage (1) | (0.1) | 0.4 | 1.4 | 3.2 |

*Sources: Montana Departments of Commerce (Board of Investments), Natural Resources and Conservation, Transportation Montana University System*

*Note: (1) Coverage equals net available revenue divided by debt service.*
*(2) In fiscal year 2008, the Montana Department of Transportation revised data for fiscal year 2005.*

**SCHEDULE C-3 – RATIOS OF GENERAL BONDED DEBT OUTSTANDING**
Last Nine Fiscal Years
*(amounts expressed in thousands, except per capita amount, in dollars)*

| Fiscal Year | General Obligation Bonds | Less: Amounts Available in Debt Service Funds | Total | Percentage of Personal Income (1) | Debt Per Capital (2) |
|---|---|---|---|---|---|
| 2002 | $214,135 | $15,327 | $198,808 | 0.87% | $219 |
| 2003 | 227,625 | 14,304 | 213,321 | 0.91% | 234 |
| 2004 | 219,645 | 14,946 | 204,699 | 0.83% | 223 |
| 2005 | 213,195 | 12,957 | 200,238 | 0.76% | 216 |
| 2006 | 230,065 | 13,700 | 216,365 | 0.77% | 231 |
| 2007 | 208,015 | 15,471 | 192,544 | 0.63% | 204 |
| 2008 | 201,560 | 11,967 | 189,593 | 0.58% | 198 |
| 2009 | 182,585 | 8,985 | 173,600 | 0.52% | 179 |
| 2010 | 169,150 | 13,486 | 169,099 | 0.46% | 175 |

*Source: Statewide Accounting, Budgeting, and Human Resource System*

*Notes: The schedule information is available beginning in fiscal year 2002, the year GASB Statement 34 was implemented. Details regarding the State's debt can be found in Note 11 of the financial statements.*

*(1) Debt as a percentage of personal income equals total debt divided by total personal income from Schedule B-1. Used calendar year 2009 personal income for fiscal year 2010 debt percentage calculation. Numbers revised for prior years due to personal income estimate revisions.*
*(2) Debt per capita is calculated by dividing total debt by total population from Schedule D-1. Numbers revised for prior years due to population estimate revisions.*

**SCHEDULE D-1 – DEMOGRAPHIC AND ECONOMIC STATISTICS**
Last Ten Calendar Years

| | Calendar Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2000** | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** |
| Population | | | | | | | | | | |
| Montana *(in thousands)* | 903 | 906 | 910 | 917 | 926 | 935 | 945 | 957 | 967 | 975 |
| Percentage change | 0.6% | 0.3% | 0.4% | 0.8% | 1.0% | 1.0% | 1.1% | 1.3% | 1.0% | 0.8% |
| National *(in thousands)* | 282,172 | 285,040 | 287,727 | 290,211 | 292,892 | 295,561 | 298,363 | 301,290 | 304,060 | 307,007 |
| Percentage change | 1.1% | 1.0% | 0.9% | 0.9% | 0.9% | 0.9% | 0.9% | 1.0% | 0.9% | 1.0% |
| Total Personal Income | | | | | | | | | | |
| Montana *(in millions)* | 21,200 | 22,931 | 23,370 | 24,752 | 26,495 | 28,179 | 30,447 | 32,447 | 34,111 | 33,923 |
| Percentage change | 7.1% | 8.2% | 1.9% | 5.9% | 7.0% | 6.4% | 8.0% | 6.7% | 3.2% | (.6%)) |
| National *(in billons)* | 8,555 | 8,879 | 9,055 | 9,369 | 9,929 | 10,477 | 11,257 | 11,900 | 12,380 | 12,165 |
| Percentage change | 8.2% | 3.8% | 2.0% | 3.5% | 6.0% | 5.5% | 7.4% | 5.5% | 2.9% | 1.7% |
| Per Capita Personal Income | | | | | | | | | | |
| Montana | 23,470 | 25,315 | 25,685 | 27,000 | 28,613 | 30,141 | 32,204 | 33,897 | 35,237 | 34,794 |
| Percentage change | 6.5% | 7.9% | 1.5% | 5.1% | 6.0% | 5.3% | 6.8% | 5.4% | 2.1% | 1.3% |
| National | 30,318 | 31,149 | 31,470 | 32.284 | 33,899 | 35,447 | 37,728 | 39,458 | 40,673 | 39,626 |
| Percentage change | 7.0% | 2.7% | 1.0% | 2.6% | 5.0% | 4.6% | 6.4% | 4.5% | 2.0% | 2.6% |
| Resident Civilian Labor Force and Employment | | | | | | | | | | |
| Civilian labor force | 469,083 | 470,262 | 466,787 | 469,119 | 473,532 | 479,553 | 493,004 | 502,219 | 510,816 | 498,897 |
| Employed | 446,742 | 449,175 | 445,739 | 448,805 | 454,259 | 461,936 | 479,614 | 485,221 | 487,870 | 468,211 |
| Unemployed | 22,341 | 21,087 | 21,048 | 20,314 | 19,273 | 17,617 | 16,390 | 16,998 | 22,946 | 30,686 |
| Unemployment rate | 4.8% | 4.5% | 4.5% | 4.3% | 4.0% | 3.7% | 3.3% | 3.4% | 4.5% | 6.2% |
| Nonfarm Wage and Salary Workers *(in thousands)* | | | | | | | | | | |
| Goods-producing industries | | | | | | | | | | |
| Natural Resources and Mining | 6.0 | 6.2 | 6.2 | 6.2 | 7.1 | 7.7 | 8.2 | 8.4 | 8.3 | 7.0 |
| Construction | 20.4 | 21.2 | 21.7 | 23.1 | 24.9 | 27.6 | 30.2 | 32.3 | 29.8 | 24.00 |
| Durable goods | 15.2 | 14.4 | 13.1 | 12.1 | 12.1 | 12.4 | 12.8 | 13.0 | 12.3 | 10.1 |
| Nondurable goods | 7.2 | 7.0 | 6.9 | 6.9 | 7.1 | 7.2 | 7.4 | 7.5 | 7.6 | 7.3 |
| Subtotal goods-producing industries | 48.8 | 48.8 | 47.9 | 48.3 | 51.2 | 54.9 | 58.6 | 61.2 | 58.0 | 48.4 |
| Service-producing industries | | | | | | | | | | |
| Transp, communications, and utilities | 24.7 | 24.1 | 23.7 | 23.1 | 23.3 | 23.8 | 24.3 | 24.6 | 24.3 | 21.5 |
| Trade | 69.4 | 68.9 | 68.9 | 69.1 | 70.8 | 71.6 | 72.8 | 75.3 | 75.6 | 66.9 |
| Finance, insurance, and real estate | 18.5 | 18.8 | 19.3 | 20.3 | 21.1 | 21.4 | 22.0 | 21.8 | 21.9 | 21.1 |
| Service | 145.2 | 146.9 | 151.4 | 154.2 | 158.4 | 162.9 | 169.3 | 174.8 | 178.7 | 182.3 |
| State and local government | 70.6 | 70.7 | 71.1 | 72.0 | 72.9 | 72.7 | 72.1 | 73.9 | 74.1 | 74.4 |
| Federal government | 13.4 | 13.4 | 13.8 | 13.8 | 13.8 | 13.5 | 13.5 | 13.4 | 13.6 | 13.9 |
| Subtotal service-producing industries | 341.8 | 342.8 | 348.2 | 352.5 | 360.3 | 365.9 | 374.0 | 383.8 | 388.2 | 380.1 |
| Total Nonfarm Wage and Salary Employment | 390.6 | 391.6 | 396.1 | 400.8 | 411.5 | 420.8 | 432.6 | 445.0 | 446.2 | 428.5 |

*Sources:* *Population Division, U.S. Census Bureau*
*Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce*
*Bureau of Labor Statistics, U.S. Department of Labor*

*Notes:* *Total personal income is comprised of earned income, dividends, interest and rents, and government transfer payments. Per capita income is calculated by dividing personal income by population; amounts may not be exact due to rounding.*
*Numbers for prior years revised due to releases of updated data.*

**SCHEDULE D-2 – PRINCIPAL EMPLOYERS**
Current Calendar Year and Nine Calendar Years Ago

| | 2000 | | | 2009 | | |
|---|---|---|---|---|---|---|
| **Employer** | **Employees** (1) | **Rank** | **Percentage of Total State Employment** (2) | **Employees** (1) | **Rank** | **Percentage of Total State Employment** (2) |
| State of Montana | 19,500–20,000 | 1 | 5.31% | 21,500–22,000 | 1 | 5.26% |
| Federal Government | 13,500-14,000 | 2 | 3.69 | 12,500-13,000 | 2 | 3.08 |
| Wal-Mart | 2,000-2500 | 3 | 0.60 | 4,500-5,000 | 3 | 1.15 |
| Billings Clinic Health System | 2,000-2,500 | 5 | 0.60 | 3,000-3,500 | 4 | 0.79 |
| Town Pump | 1,500-2,000 | 9 | 0.47 | 2,000–2,500 | 5 | 0.54 |
| St. Vincent Hospital | 1,500-2,000 | 8 | 0.47 | 2,000–2,500 | 6 | 0.54 |
| Albertson's | 2,000-2,500 | 4 | 0.60 | 2,000–2,500 | 7 | 0.54 |
| Benefis Healthcare | 1,500-2,000 | 6 | 0.47 | 1,500–2,000 | 8 | 0.42 |
| Avitus Group | | | | 1,500-2,000 | 9 | 0.42 |
| St. Patrick Hospital | 1,000-1,500 | 10 | 0.34 | 1,500–2,000 | 10 | 0.42 |
| Montana Power Company | 1,500-2,000 | 7 | 0.47 | | | |
| | | | | | | |
| Total State Employment | 372,141 | | | 413,426 | | |

*Sources:* *Montana Department of Labor*
*Bureau of Labor Statistics, U.S. Department of Labor*

*Notes::* *(1) Number of employees based on March 2009 data.*
*(2) Percentage of total state employment based on the midpoints in the ranges given.*

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**SCHEDULE E-1 – FULL-TIME EQUIVALENT STATE EMPLOYEES BY FUNCTION/PROGRAM**
Last Nine Fiscal Years

| | Fiscal Year | | | | |
|---|---|---|---|---|---|
| **Function/Program** | **2002** | **2003** | **2004** | **2005** | **2006** |
| Governmental: | | | | | |
| General government | 1,375 | 1,614 | 1,575 | 1,562 | 1,615 |
| Public safety/corrections | 1,925 | 1,937 | 1,930 | 1,955 | 2,048 |
| Transportation | 2,036 | 2,055 | 2,025 | 2,023 | 2,063 |
| Health/social services | 2,674 | 2,577 | 2,539 | 2,575 | 2,621 |
| Education/cultural | 416 | 429 | 402 | 407 | 428 |
| Resource/recreation/environment | 1,430 | 1,694 | 1,731 | 1,765 | 1,853 |
| Economic development/assistance | 912 | 884 | 925 | 952 | 965 |
| Total governmental | 10,768 | 11,190 | 11,127 | 11,239 | 11,593 |
| Business-type: | | | | | |
| Liquor Stores | 28 | 28 | 29 | 27 | 38 |
| State Lottery | 30 | 31 | 30 | 32 | 32 |
| Economic Development Bonds | 4 | 4 | 4 | 4 | 4 |
| Hail Insurance | 2 | 2 | 3 | 2 | 3 |
| General Government Services | 109 | 102 | 94 | 104 | 96 |
| Prison Funds | 38 | 35 | 31 | 32 | 34 |
| MUS Group Insurance | 3 | 3 | 3 | 2 | 3 |
| MUS Workers Compensation | - | - | - | - | - |
| Total business-type | 214 | 205 | 194 | 203 | 210 |
| Fiduciary: | | | | | |
| Pension Trust | 46 | 49 | 47 | 46 | 48 |
| Total fiduciary | 46 | 49 | 47 | 46 | 48 |
| Component unit: | | | | | |
| Housing Authority | 18 | 17 | 19 | 21 | 20 |
| Facility Finance Authority | 2 | 2 | 2 | 2 | 2 |
| State Compensation Insurance (New Fund) | 228 | 239 | 252 | 261 | 265 |
| Montana State University | 3,878 | 3,916 | 3,960 | 3,994 | 3,940 |
| University of Montana | 3,064 | 3,129 | 3,187 | 3,238 | 3,281 |
| Total component unit | 7,190 | 7,303 | 7,420 | 7,516 | 7,508 |
| Total full-time equivalent employees | 18,218 | 18,747 | 18,788 | 19,004 | 19,359 |

*Source:* *Statewide Accounting, Budgeting, and Human Resource System*

*Note:* *The number of full-time equivalent employees is presented by functional/programmatic categories consistent with the level of expense detail required by GASB Statement 34. Thus, the employee information is available beginning in fiscal year 2002.*

| Fiscal Year | | | |
|---|---|---|---|
| 2007 | 2008 | 2009 | 2010 |
| 1,552 | 1,696 | 1,564 | 2,781 |
| 2,176 | 2,270 | 2,065 | 2,573 |
| 2,031 | 2,023 | 1,935 | 2,233 |
| 2,587 | 2,704 | 2,422 | 2,992 |
| 432 | 463 | 406 | 485 |
| 1,825 | 1,876 | 1,696 | 2,147 |
| 913 | 951 | 853 | - |
| 11,516 | 11,983 | 10,941 | 13,211 |
| 39 | 43 | 39 | 29 |
| 32 | 33 | 30 | 32 |
| 6 | 5 | 3 | 4 |
| 3 | 3 | 3 | 8 |
| 103 | 108 | 84 | 94 |
| 34 | 35 | 32 | 21 |
| 4 | 4 | 4 | 5 |
| 1 | 1 | 1 | 1 |
| 222 | 232 | 196 | 194 |
| 46 | 48 | 46 | 57 |
| 46 | 48 | 46 | 57 |
| 19 | 21 | 19 | 47 |
| 2 | 2 | 3 | 3 |
| 279 | 276 | 251 | 299 |
| 4,056 | 4,021 | 4,090 | 4,181 |
| 3,364 | 3,557 | 3,578 | 3,705 |
| 7,720 | 7,877 | 7,941 | 8,235 |
| 19,504 | 20,140 | 19,124 | 21,697 |

**SCHEDULE E-2 – OPERATING INDICATORS BY FUNCTION/PROGRAM**
Last Nine Fiscal Years

| | Fiscal Year | | | | |
|---|---|---|---|---|---|
| **Function/Program** | **2002** | **2003** | **2004** | **2005** | **2006** |
| Governmental activities: | | | | | |
| General government | | | | | |
| Department of Revenue | | | | | |
| Electronically-filed income tax returns | 140,034 | 168,231 | 195,880 | 224,653 | 236,200 |
| Paper-filed income tax returns | 290,009 | 265,998 | 243,247 | 200,102 | 203,100 |
| Judiciary | | | | | |
| Supreme Court total filings (1) | 798 | 860 | 882 | 738 | 760 |
| District Court total filings (1) | 33,443 | 37,456 | 38,579 | 38,619 | 42,000 |
| Public safety/corrections | | | | | |
| Department of Corrections | | | | | |
| Incarcerated offenders | 2,402 | 2,156 | 2,307 | 2,535 | 2,935 |
| Supervised offenders | 7,048 | 7,787 | 8,081 | 8,460 | 8,797 |
| Department of Justice | | | | | |
| Driver's licenses issued | 123,070 | 112,727 | 149,714 | 163,336 | 172,915 |
| Vehicles registered (2) | 1,117,152 | 1,153,352 | 1,262,990 | 972,849 | 1,550,713 |
| Department of Military Affairs (Army Program Facilities Office) | | | | | |
| Work orders received | 2,500 | 2,445 | 2,066 | 3,272 | 2,648 |
| Work orders completed | 1,950 | 2,102 | 1,555 | 2,843 | 2,349 |
| Work orders unfunded or not completed | 550 | 343 | 511 | 429 | 172 |
| Transportation | | | | | |
| Department of Transportation | | | | | |
| Paved roads (miles) | 18,980 | 18,998 | 19,017 | 19,020 | 19,050 |
| Unpaved roads (miles) | 51,717 | 51,641 | 51,624 | 51,623 | 55,281 |
| Health/social services | | | | | |
| Department of Public Health and Human Services | | | | | |
| Senior citizens receiving personal long-term care assistance | 2,856 | 2,707 | 2,801 | 2,808 | 2,869 |
| Number of households provided with energy assistance | 16,977 | 18,000 | 19,125 | 20,463 | 21,552 |
| Education/cultural | | | | | |
| Office of Public Instruction | | | | | |
| K-12 public school enrollment | 151,947 | 149,995 | 148,356 | 146,705 | 145,259 |
| Public schools | 877 | 866 | 859 | 852 | 840 |
| Commissioner of Higher Education | | | | | |
| Total enrollment for Montana University System | 28,795 | 29,184 | 29,520 | 29,122 | 29,181 |
| Total enrollment for Colleges of Technology | 3,295 | 3,489 | 3,663 | 3,641 | 3,910 |
| Resource/recreation/environment | | | | | |
| Department of Natural Resources and Conservation | | | | | |
| Revenue generated on state trust lands (millions of dollars) | $63.4 | $62.5 | $72.8 | $86.1 | $101.9 |
| Oil production (millions of bbls) | 16.05 | 18.1 | 19.9 | 20.9 | 36.2 |
| Gas production (millions of mcf) | 77.3 | 78.8 | 78.9 | 80.5 | 114.0 |
| Department of Fish, Wildlife and Parks | | | | | |
| License and permit sales (3) | 1,566,842 | 1,598,180 | 1,751,581 | 1,752,315 | 1,638,410 |
| State park visitation (millions) | 1.1 | 1.6 | 1.6 | 1.65 | 1.7 |

| Fiscal Year | | | |
|---|---|---|---|
| **2007** | **2008** | **2009** | **2010** |
| 234,543 | 299,194 | 317,211 | 333,911 |
| 266,891 | 187,188 | 178,114 | 151,945 |
| 676 | 649 | N/A | N/A |
| 41,546 | 45,143 | N/A | N/A |
| 2,608 | 2,439 | 2,573 | 2,491 |
| 9,838 | 10,433 | 10,453 | 10,535 |
| 181,804 | 156,088 | 164,230 | 169,046 |
| 1,657,285 | 1,610,753 | 1,634,914 | 969,176 |
| 3,386 | 3,610 | 3,114 | 3,380 |
| 2,781 | 3,441 | 2,941 | 3,095 |
| 1,373 | 750 | 746 | 863 |
| 19,447 | 19,465 | 20,704 | 20,469 |
| 54,883 | 55,472 | 56,632 | 55,193 |
| 2,857 | 3,004 | 3,165 | |
| 19,254 | 18,929 | 22,448 | 28,054 |
| | | | 3,206 |
| 144,418 | 143,405 | 142,082 | 141,807 |
| 831 | 830 | 829 | 828 |
| 29,140 | 29,072 | 31,805 | 30,362 |
| 4,033 | 4,277 | 4,570 | 5,538 |
| $103.6 | $107.1 | $110.0 | $180.60 |
| 37.2 | 34.9 | 31.5 | 27.8 |
| 118.0 | 120.7 | 119.5 | 105.3 |
| 1,737,413 | 1,808,093 | 1,806,316 | 1,826,939 |
| 1.85 | 1.78 | 1.80 | 1.76 |

**SCHEDULE E-2 – OPERATING INDICATORS BY FUNCTION/PROGRAM - Continued**
Last Nine Fiscal Years

| Function/Program | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| Governmental activities (continued): | | | | | |
| Resource/recreation/environment (continued) | | | | | |
| Department of Environmental Quality | | | | | |
| Environmental permit applications | 3,819 | 5,047 | 5,192 | 6,245 | 8,044 |
| Environmental violations | 2,788 | 2,888 | 3,338 | 3,655 | 2,166 |
| Economic development/assistance | | | | | |
| Department of Commerce (Community Development) | | | | | |
| Treasure State Endowment Project – applications | 55 | - | 47 | - | 57 |
| Treasure State Endowment Project – construction awards | - | 40 | - | 40 | N/A |
| Community Development Block Grant – public facility applications | 8 | 13 | 10 | 14 | 11 |
| Community Development Block Grant – public facility awards | 8 | 12 | 7 | 8 | 7 |
| Business-type activities: | | | | | |
| Unemployment Insurance | | | | | |
| Department of Labor | | | | | |
| Initial claims | 58,821 | 60,300 | 56,743 | 50,216 | 46,697 |
| Average weekly benefit (dollars) | $185.67 | $195.43 | $200.93 | $209.37 | $202.67 |
| Exhaustion rate (percent) | 36.6% | 36.4% | 38.4% | 32.7% | 29.8% |
| Liquor Stores | | | | | |
| Department of Revenue | | | | | |
| Liquor licenses issued | 2,210 | 2,157 | 2,233 | 2,262 | 2,267 |
| Liquor cases distributed | 463,881 | 490,153 | 513,885 | 535,635 | 578,111 |
| State Lottery | | | | | |
| Department of Administration | | | | | |
| Total dollars in ticket sales (millions of dollars) | $34 | $35 | $37 | $34 | $40 |
| Transfer to the General Fund (millions of dollars) | $7 | $7 | $8 | $7 | $9 |
| General Government Services | | | | | |
| Department of Commerce (HUD Section 8) | | | | | |
| Applications reviewed – homebuyers assistance (dollars) (4) (5) | - | $1,608,335 | $1,531,543 | $2,290,100 | $466,115 |
| Grants awarded – homebuyers assistance (dollars) (4) (5) | - | $1,608,335 | $1,531,543 | $1,547,323 | $466,115 |

*N/A = not available*

*Sources:* *Governor's Office of Budget and Program Planning, Biennium Executive Budget*
*Montana Departments of Administration, Justice, Military Affairs, and Transportation*
*Montana Commissioner of Higher Education*
*Unemployment Insurance Data Summary, Employment & Training Administration, U.S. Department of Labor*

*Notes:*
*(1) Operating indicators are reported on a calendar-year basis.*
*(2) Operating indicators for fiscal year 2007 revised in fiscal year 2008.*
*(3) Effective with fiscal year 2004, license and permit sales reported by license year.*
*(4) As of July 2006, an additional $483,917 in remaining Community Housing Development Organization (CHDO) set-aside funds was available in the second 2006 application round (deadline: August 1).*
*(5) Effective with fiscal year 2007, reporting method revised to include both single and multiple family assistance..*

| Fiscal Year | | | |
|---|---|---|---|
| 2007 | 2008 | 2009 | 2010 |
| 8,222 | 9,104 | 9,308 | 9,419 |
| 3,271 | 4,586 | 4,069 | 3,793 |
| - | 65 | - | 59 |
| 56 | - | 66 | - |
| 17 | 17 | 20 | 11 |
| 8 | 10 | 8 | 8 |
| 47,147 | 49,530 | 85,760 | 92,489 |
| $225.00 | $241.44 | $259.38 | $277.88 |
| 32.1% | 32.3% | 49.2% | 56.40% |
| 2,249 | 4,601 | 4,771 | 4,972 |
| 616,400 | 653,475 | 653,471 | 660,229 |
| $42 | $44 | $44 | $47 |
| $11 | $11 | $11 | $11 |
| $4,536,558 | $3,217,708 | $2,776,621 | - |
| $4,140,419 | $3,830,524 | $1,847,714 | $2,626,867 |

**SCHEDULE E-3 – CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM**
Last Nine Fiscal Years

| | Fiscal Year | | | | | |
|---|---|---|---|---|---|---|
| **Function/Program** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** |
| Governmental activities: | | | | | | |
| General government | | | | | | |
| Department of Administration | | | | | | |
| Buildings | 50 | 47 | 47 | 48 | 48 | 47 |
| Data processing equipment | 762 | 825 | 866 | 861 | 916 | 997 |
| Judiciary | | | | | | |
| Vehicles | 10 | 50 | 57 | 63 | 61 | 52 |
| Public safety/corrections | | | | | | |
| Department of Corrections | | | | | | |
| Vehicles | 413 | 418 | 269 | 288 | 297 | 280 |
| Buildings | 160 | 149 | 155 | 152 | 155 | 151 |
| Department of Justice | | | | | | |
| Vehicles | 389 | 395 | 396 | 401 | 409 | 422 |
| Laboratory/scientific equipment | 192 | 158 | 164 | 168 | 166 | 251 |
| Transportation | | | | | | |
| Department of Transportation | | | | | | |
| Vehicles | 4,233 | 4,055 | 4,027 | 4,006 | 4,032 | 4,173 |
| Buildings | 720 | 763 | 852 | 751 | 729 | 718 |
| Health/social services | | | | | | |
| Department of Public Health and Human Services | | | | | | |
| Vehicles | 318 | 333 | 323 | 331 | 330 | 204 |
| Buildings | 137 | 134 | 135 | 129 | 127 | 127 |
| Education/cultural | | | | | | |
| Historical Society | | | | | | |
| Buildings | 311 | 707 | 15 | 14 | 3 | 2 |
| Resource/recreation/environment | | | | | | |
| Department of Natural Resources and Conservation | | | | | | |
| Vehicles | 810 | 853 | 766 | 925 | 672 | 760 |
| Buildings | 182 | 181 | 179 | 179 | 177 | 183 |
| Department of Fish, Wildlife and Parks | | | | | | |
| Vehicles | 1,305 | 1,226 | 1,238 | 1,462 | 1,610 | 1,693 |
| Buildings | 1,287 | 743 | 761 | 742 | 816 | 763 |
| Department of Environmental Quality | | | | | | |
| Vehicles | 52 | 60 | 60 | 60 | 59 | 66 |
| Laboratory/scientific equipment | 239 | 246 | 131 | 141 | 124 | 130 |
| Economic development/assistance | | | | | | |
| Department of Commerce | | | | | | |
| Buildings | 7 | 9 | 685 | 685 | 258 | 257 |
| Business-type activities: | | | | | | |
| State Lottery | | | | | | |
| Department of Administration | | | | | | |
| Vehicles | 15 | 17 | 14 | 12 | 14 | 14 |
| General government services | | | | | | |
| Department of Administration | | | | | | |
| Vehicles | 21 | 24 | 14 | 13 | 14 | 13 |
| Prison funds | | | | | | |
| Department of Corrections | | | | | | |
| Vehicles | 40 | 40 | 42 | 45 | 48 | 48 |

*Sources:* *Statewide Accounting, Budgeting, and Human Resource System*
*Vehicle Exposure and Commercial Property Schedules, Risk Management and Tort Defense Division*
*Department of Administration*

*Note:* *The schedule information is available beginning in fiscal year 2002, the year GASB Statement 34 was implemented.*

| Fiscal Years | | |
|---|---|---|
| 2008 | 2009 | 2010 |
| 50 | 50 | 55 |
| 1,110 | 1,139 | 1,917 |
| 52 | 51 | 24 |
| 283 | 294 | 192 |
| 149 | 151 | 246 |
| 524 | 486 | 606 |
| 287 | 211 | 259 |
| 4,289 | 4,305 | 2,482 |
| 783 | 784 | 969 |
| 189 | 195 | 193 |
| 131 | 131 | 153 |
| 2 | 2 | 5 |
| 798 | 517 | 710 |
| 181 | 181 | 87 |
| 1,844 | 1,837 | 2,693 |
| 769 | 840 | 794 |
| 60 | 66 | 108 |
| 134 | 159 | 719 |
| 261 | 266 | 4 |
| 15 | 15 | 15 |
| 13 | 13 | 36 |
| 49 | 52 | 56 |

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